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光大證券股份有限公司
Everbright Securities Company Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6178)

**ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTIONS**

EVERBRIGHT GROUP FINANCIAL PRODUCTS AND SERVICES FRAMEWORK AGREEMENT, EVERBRIGHT GROUP PROPERTY LEASING FRAMEWORK AGREEMENT AND EVERBRIGHT GROUP NON-FINANCIAL MISCELLANEOUS SERVICES FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated August 28, 2018, which disclosed (1) 2018 Everbright Group Financial Products and Services Framework Agreement; (2) 2018 Everbright Group Property Leasing Framework Agreement; and (3) 2018 Everbright Group Non-financial Miscellaneous Services Framework Agreement entered into between the Company and the Everbright Group (together, the “**2018 Everbright Group Continuing Connected Transactions Framework Agreements**”).

Taking into account the expiry of the 2018 Everbright Group Continuing Connected Transactions Framework Agreements on December 31, 2021, the Company proposes to renew the continuing connected transactions framework agreements between the Company and the Everbright Group on the basis of the 2018 Everbright Group Continuing Connected Transactions Framework Agreements for a term of three years commencing from January 1, 2022 to December 31, 2024.

In the ordinary course of the business of the Group, the Group deposits its proprietary funds and customers' funds with Everbright Bank (a connected person of the Company). Reference is made to the announcement of the Company dated September 17, 2018, which disclosed that the Company has applied for a waiver from the Hong Kong Stock Exchange from setting a maximum daily deposit limit on the deposits of the Group's proprietary funds and customers' funds placed with Everbright Bank, and the Hong Kong Stock Exchange has granted us a waiver from strict compliance with the maximum daily balance requirements set out in Rule 14A.53 of the Hong Kong Listing Rules. Given that such waiver will expire on December 31, 2021, the Company has again applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the maximum daily balance of the deposits as required under Rule 14A.53 of the Hong Kong Listing Rules. The Hong Kong Stock Exchange is yet to grant the Company such a waiver. If the Hong Kong Stock Exchange does not approve the waiver application, the Board of Directors has agreed to approve the management of the Company to set a maximum daily deposit limit on the deposits of the Group's proprietary funds and the customers' funds placed with Everbright Bank in accordance with the applicable laws and regulations, the Hong Kong Listing Rules, the requirements of the competent regulatory authorities and the actual situation of the Group.

IMPLICATIONS OF THE HONG KONG LISTING RULES

- (1) The Everbright Group is the controlling shareholder of the Company. As at the date of this announcement, the Everbright Group is directly and indirectly interested in approximately 45.98% equity interest of the Company in aggregate. Accordingly, under the Hong Kong Listing Rules, the Everbright Group and its associates are connected persons of the Company, and the transactions contemplated under the 2021 Everbright Group Financial Products and Services Framework Agreement, 2021 Everbright Group Property Leasing Framework Agreement and 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement between the Group and the Everbright Group and its associates shall constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.
- (2) As the highest applicable percentage ratios in respect of (1) the proposed annual caps for the three years ending December 31, 2024 of the continuing securities and financial products transactions; and (2) the proposed annual caps for the three years ending December 31, 2024 of the continuing securities and financial services transactions contemplated under the 2021 Everbright Group Financial Products and Services Framework Agreement exceed 5% as calculated according to the Hong Kong Listing Rules, such continuing connected transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Company has again applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the maximum daily balance of the deposit limit of the Group's proprietary funds and customers' funds placed with Everbright Bank as required under Rule 14A.53 of the Hong Kong Listing Rules. The Hong Kong Stock Exchange is yet to grant the Company such a waiver. If the Hong Kong Stock Exchange does not approve the waiver application, the Board of Directors has agreed to approve the management of the Company to set a maximum daily deposit limit on the deposits of the Group's proprietary funds and the customers' funds placed with Everbright Bank in accordance with the applicable laws and regulations, the Hong Kong Listing Rules, the requirements of the competent regulatory authorities and the actual situation of the Group.

- (3) The highest applicable percentage ratios in respect of the proposed annual caps for the three years ending December 31, 2024 of the continuing connected transactions contemplated under the 2021 Everbright Group Property Leasing Framework Agreement and the 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement exceed 0.1% but are less than 5%. Accordingly, such continuing connected transactions are subject to the reporting, announcement and annual review only but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

EXTRAORDINARY GENERAL MEETING

On August 26, 2021, a meeting of the Board (the “**Board Meeting**”) was held by the Company, at which the resolutions in relation to the 2021 Everbright Group Financial Products and Services Framework Agreement, 2021 Everbright Group Property Leasing Framework Agreement and 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement, and the annual caps for the continuing connected transactions contemplated thereunder were considered and approved. Mr. Yan Jun, Mr. Liu Qiuming (all being executive Directors of the Company), Mr. Song Bingfang, Mr. Fu Jianping, Mr. Yin Lianchen and Mr. Chan Ming Kin (all being non-executive Directors) are deemed to have a material interest in all of the above continuing connected transactions to be contemplated between the Group and the Everbright Group and have abstained from voting with respect to considering and approving these resolutions at the Board Meeting. Save as disclosed above, no other Directors have a material interest in such transactions and therefore did not abstain from voting with respect to the aforesaid resolutions at the Board Meeting.

The Company will convene an extraordinary general meeting for the purposes of, among other things, obtaining the Independent Shareholders’ approval (if applicable) for the 2021 Everbright Group Financial Products and Services Framework Agreement and the annual caps for the continuing securities and financial products transactions and continuing securities and financial services transactions contemplated thereunder. The Everbright Group and its associates will abstain from voting on the relevant resolutions.

The Independent Board Committee, comprising all the independent non-executive Directors of the Company, has been formed to advise the Independent Shareholders on the terms of the 2021 Everbright Group Financial Products and Services Framework Agreement and the proposed annual caps for the continuing securities and financial products transactions and continuing securities and financial services transactions contemplated thereunder.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the Company on the same matters.

A circular containing further details of the 2021 Everbright Group Financial Products and Services 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 proposed terms and the proposed annual caps of the 2021 Everbright Group Financial Products and Services Framework Agreement, is aimed to be despatched to the Shareholders on or before September 16, 2021.

1. PROPOSED RENEWAL OF THE FINANCIAL PRODUCTS AND SERVICES FRAMEWORK AGREEMENT

1.1 Overview

1.1.1 Background of Financial Products and Services Framework Agreement

In the ordinary course of business of the Group, the Group, from time to time, enters into the securities and financial products transactions (the “**Securities and Financial Products Transactions**”) with the Everbright Group and its associates, and also provides securities and financial services (the “**Securities and Financial Services**”) to the Everbright Group and its associates. Similarly, the Everbright Group and its associates also enter into the Securities and Financial Products Transactions with the Group and provide the Securities and Financial Services to the Group on normal commercial terms.

Reference is made to the announcement of the Company dated August 28, 2018, where the Company and the Everbright Group entered into a financial products and services framework agreement (the “**2018 Everbright Group Financial Products and Services Framework Agreement**”) for a term of three years commencing from January 1, 2019 to December 31, 2021.

Taking into account the expiry of the 2018 Everbright Group Financial Products and Services Framework Agreement on December 31, 2021, the Company proposes to renew the financial products and services framework agreement between the Company and the Everbright Group (the “**2021 Everbright Group Financial Products and Services Framework Agreement**”) on the basis of the 2018 Everbright Group Financial Products and Services Framework Agreement for a term of three years commencing from January 1, 2022 to December 31, 2024.

1.1.2 Scope of the Securities and Financial Products Transactions

The Securities and Financial Products Transactions include the transactions relating to (a) securities products with fixed income features; (b) fixed income related derivative products; (c) equity related products; (d) financing transactions; and (e) other related securities and financial products permitted to be transacted under applicable laws and regulations. There is no change in terms of the scope of such Securities and Financial Products Transactions as compared to those under the 2018 Everbright Group Financial Products and Services Framework Agreement.

Set forth below is a further elaboration of the scope of the Securities and Financial Product Transactions under the Financial Products and Services Framework Agreement:

- securities products with fixed income features, including but not limited to, bonds, funds, trust products, wealth management products, asset management schemes, assets securitization products, convertible bonds, bond lending and borrowing, structured products, swaps, futures, forwards, options and other financial products with fixed income features;
- fixed income related derivative products, including but not limited to, interest rates and credit derivative products;

- equity-related products, including but not limited to, trading and/or subscription of equities (including in connection with market-making activities on the National Equities Exchange and Quotation) (the “**New Third Board**”), funds, trust products, wealth management products, asset management products and equity derivative products, including but not limited to income swaps and convertible bonds;
- financing transactions – financing transactions among financial institutions with or without guarantees/pledges, including but not limited to, interbank lending, repurchase, interbank deposits, usufruct, asset securitization, corporate account overdrafts, pledge loans, holding of debt certificates (including but not limited to, short-term financing bonds, structured notes, subordinated debts and corporate bonds); and
- other related securities and financial products permitted to be transacted under applicable laws and regulations, including but not limited to, futures, foreign exchange, commodities trading and options.

1.1.3 Scope of the Securities and Financial Services

Scope of the Securities and Financial Services to be provided by the Group to the Everbright Group and its associates

The Securities and Financial Services to be provided by the Group to the Everbright Group and its associates include the transactions relating to (a) underwriting and sponsorship services; (b) other investment banking services; (c) brokerage services; (d) proxy sale of financial products services; (e) entrusted asset management services; (f) leasing of trading seats; (g) fund investment advisory services, other financial and securities advisory and consulting services and commodities services; (h) PPP financial services; (i) financial leasing services and factoring financial services; (j) custody and outsourcing services; (k) insurance brokerage and consultancy services; and (l) other securities and financial services permitted by the applicable laws and regulations.

Set forth below is a further elaboration of the scope of the Securities and Financial Services to be provided by the Group to the Everbright Group and its associates:

- underwriting and sponsorship services, including but not limited to issuance, sponsorship, underwriting, and continuous supervision and guidance services for equities, fixed income products, structured products and other derivative products
- other investment banking services, including, but not limited to, financial advisory services relating to corporate restructuring, reorganization, mergers and acquisition; asset management related wealth management product investment advisory services; and consulting services
- brokerage services, including but not limited to, securities brokerage and related financial products services as well as futures brokerage services such as treasury bond futures

- proxy sale of financial products services, including but not limited to, provision of proxy sales for financial products
- entrusted asset management services, including but not limited to, asset management services for assets entrusted by customers
- leasing of trading seats
- fund investment advisory services, other financial and securities advisory and consulting services, commodities services and etc.
- PPP financial services
- financial leasing services and factoring financial services
- custody and outsourcing services, including but not limited to, provision of asset custody, product valuation and calculation, investment supervision, share registration, information disclosure and etc.
- insurance brokerage and consultancy services
- other securities and financial services permitted by the applicable laws and regulations

Scope of the Securities and Financial Services to be provided by the Everbright Group and its associate to the Group

The Securities and Financial Services to be provided by the Everbright Group and its associates to the Group include (a) deposit services; (b) proxy sale of financial products services; (c) deposits management and custody services; (d) loan services; (e) insurance services; (f) financial leasing services and factoring financial services; (g) financial and securities advisory and consulting services; and (h) other securities and financial services permitted by the applicable laws and regulations. There is no change in terms of the scope of such Securities and Financial Services as compared to those under the 2018 Everbright Group Financial Products and Services Framework Agreement.

Set forth below is a further elaboration of the scope of the Securities and Financial Services to be provided by the Everbright Group and its associates to the Group:

- deposit services, including but not limited to, (a) deposits of cash balances arising from the Group's business operations including cash from daily operations, proceeds raised from equity and bond issuances; (b) cash deposits from the Group's customers; and (c) other deposits
- proxy sale of financial products services, including but not limited to, provision of proxy sale services for the Group's financial products and precious metals

- deposits management and custody services, including but not limited to, management services provided by members of the Everbright Group for managing the deposits of the Group’s non-financial institution customers, which are required by the relevant PRC laws and regulations to be deposited into the Group’s special account with a PRC commercial bank, and custody services provided by members of the Everbright Group for the securities and financial products issued by the Group
- loan services, including but not limited to, funds required for daily operations and loans as working capital
- insurance services, including but not limited to, employee insurance
- financial leasing services and factoring financial services
- financial and securities advisory and consulting services, monetary brokerage services and commodities services, etc.
- other securities and financial services permitted by the applicable laws and regulations

1.2 “Securities and Financial Products Transactions” under the 2021 Everbright Group Financial Products and Services Framework Agreement

1.2.1 Pricing basis for the Securities and Financial Products Transactions

The Securities and Financial Products Transactions 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 the open-ended fund market. Such transactions are and will continue to be carried on at the prevailing market prices in the ordinary and usual course of the Group’s business and with high frequency. The pricing mechanisms of the Securities and Financial Products Transactions depend on the particular trading venue on which the relevant transaction is carried on.

(1) Securities and financial products traded on the PRC inter-bank bond market and PRC exchange bond market

The major types of securities and financial products traded on the PRC inter-bank bond market and the PRC exchange bond market include inter-bank lending, collateralized repurchase, buyout repurchase, spot trading, bond lending, asset securitization products, interest rate swap and inter-bank deposit. The pricing of the transactions conducted at the PRC inter-bank bond market and the PRC exchange bond market is based on the prices quoted in the PRC inter-bank bond market and the PRC exchange bond market. Such prices are mainly determined with reference to the valuation of the relevant securities and financial products published by China Central Depository & Clearing Co., Ltd. (“CCDC”), yield curve and the turnover details published by China Foreign Exchange Trade System & National Interbank Funding Center (“NIFC”).

The Company has access to the NIFC and CCDC systems to obtain turnover information of the relevant securities and financial products. At the same time, the Company also reviews various bond market information published by NIFC, CCDC and other agents. For example, NIFC composes repurchase rates which is one of the key benchmarks for repurchase transactions in the PRC financial market. In addition, the Company has subscribed for information services provided by information service providers, such as Wind Info, and has access to information channels and websites of official and voluntary industry regulatory authorities, such as Asset Management Association of China, Chinamoney.com.cn and Chinabond.com.cn, etc., which publish periodic official and voluntary statistics and information on the industry from time to time.

China's interbank bond market is an open, highly regulated quote-driven market regulated by the People's Bank of China (the "PBOC") pursuant to the Measures for the Administration of Bond Transactions in the National Interbank Bond Market (《全國銀行間債券市場債券交易管理辦法》). Transactions in the PRC inter-bank bond market must be reported to NIFC and are supervised by NIFC, CCDC and the National Association of Financial Market Institutional Investors ("NAFMII"). According to the relevant PRC laws and regulations, the prevailing market prices in the PRC inter-bank bond market are determined with reference to the bid and offer prices quoted on NIFC. All transactions, whether conducted through an authorized intermediate money brokerage firm or a market maker or through over-the-counter negotiations, have to be reported to NIFC and reflected in the price quotations provided by NIFC and CCDC. According to the Self-regulatory Rules for Bond Transaction in Inter-bank Bond Market (《銀行間債券市場債券交易自律規則》), the self-regulatory rules of NAFMII, abnormal pricing may result in disciplinary action by NAFMII, including public criticism. NAFMII is a self-regulatory organization responsible for supervising interbank transactions.

The PRC exchange bond market is an order-driven market governed by the CSRC. The transactions conducted through the PRC exchange bond market have to be conducted in accordance with the prevailing market prices quoted on the relevant PRC stock exchanges.

(2) *Securities and financial products traded on the exchanges*

The major types of securities and financial products traded on the Shanghai Stock Exchange, Shenzhen Stock Exchange, Shanghai Gold Exchange, the PRC Futures Exchange and China Foreign Exchange Trade System include equities, funds, bonds (mainly including bond repurchase and asset securitization products), bullion products, futures and foreign exchange products. Share options are also traded on the Shanghai Stock Exchange. Call auction mechanism is mainly adopted in these exchanges and the pricing is primarily determined with reference to the turnover of a particular security 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.

Certain securities and financial products may be traded on different exchanges. The pricing mechanisms of these securities and financial products shall be the pricing mechanisms adopted by the relevant exchanges on which such securities and financial products are traded. For example, repurchases conducted through the stock exchange shall adopt call auction mechanism, whereas inter-bank repurchases shall be determined with reference to the benchmark interest rates, fixed repo rates published by NIFC and market turnover.

(3) *Securities and financial products traded on the open-ended fund market*

The major types of securities and financial products traded on the open-ended fund market include fund products, trust products, wealth management products and asset management products (collectively, the “**Fund Products**”). The pricing of transactions conducted through the open-ended fund market is determined based on the unit net value of the relevant Fund Products on the date of transaction. The unit net value of such Fund Products is calculated by dividing the net asset value of the Fund Products by the total number of the fund units. The net asset value of the Fund Products is determined based on the China Accounting Standards for Business Enterprises and in accordance with the relevant requirements of the CSRC and the Asset Management Association of China, and taking into account the fund portfolio consisting of securities, bank deposits, receivables and other investments. The calculation of the unit net value of the Fund Products is set forth in the relevant fund contract and prospectus, and equally applies to all investors of the Fund Products. Pursuant to the relevant PRC laws and regulations, the unit net value of the Fund Products determined by fund managers shall be reviewed and examined by the relevant fund custodian bank and publicly disclosed on the relevant fund manager’s website and the media designated by the CSRC.

With respect to the pricing of securities and financial products without direct market quotations, the Company mainly refers to the quotation information provided by currency brokers. Currency brokers are entities set up with the approval of China Banking and Insurance Regulatory Commission and subject to its regulation. Currency brokers specialize in facilitating transactions including intra-financial system financing, foreign exchange transactions, bond transactions and derivative transactions, who charge a commission from the provision of such brokerage services but do not directly engage in transactions of the relevant securities and financial products.

1.2.2 Pricing approval and supervision

To ensure the terms of the Securities and Financial Products Transactions are normal commercial terms or on terms no less favourable than terms applicable to independent third parties, the Group has adopted a series of internal approval and monitoring procedures. The major internal policies include the following:

- (1) The Group has established its internal guidelines and policies for conducting transactions of different types of securities and financial products. Such policies and guidelines set out the requirements for pre-trading pricing enquiries, applicable interest rates, the procedures for price determination, approval authority and procedures, record keeping, supervision and review procedures for conducting transactions of different types of securities and financial products.
- (2) Before confirming the pricing of the transactions to be entered between the business departments or the subsidiaries of the Company on the one hand and the Everbright Group and its associates on the other, the Group shall refer to the pricing offered to or quoted by two or more independent third parties for contemporaneous transactions in similar quantities to determine if the pricing and terms for the relevant transaction are fair, reasonable and no less favourable than those quoted by independent third parties to the Group or no more favourable than those offered by the Group to independent third parties, as the case may be.
- (3) To further strengthen the management of related party/connected transactions of the Company, align the differences regarding the regulatory requirements on related party/connected transactions between Mainland China and Hong Kong after the listing of H Shares of the Company on the Hong Kong Stock Exchange and strictly manage the related party/connected transaction risks, the Company established a related party/connected transactions working group (the “**Related Party/Connected Transactions Working Group**”) in 2016. The Related Party/Connected Transactions Working Group comprises the Company’s relevant personnel from the Office of the Board (Supervisory Committee), Legal and Compliance Department and Finance and Treasury Department, which is responsible for managing the Group’s related party/connected transactions on a daily basis. The business departments and the Company’s subsidiaries proposing to engage in various types of transactions shall take the responsibility to prove that the related party/connected transactions are entered into on normal commercial terms or on terms no less (more) favourable to those obtained or provided by independent third parties, and provide relevant evidence to prove such assertion according to the requirements of the Related Party/Connected Transactions Working Group.
- (4) The Related Party/Connected Transactions Working Group collects data from the relevant business departments and the Company’s subsidiaries and reviews the actual transaction amounts of the Securities and Financial Products Transactions on a regular or ad hoc basis to ensure that the annual caps would not be exceeded and remind the business departments and the Company’s subsidiaries to supervise and control such connected transactions.

- (5) The continuing connected transactions are subject to annual review by all the independent non-executive Directors, the internal audit department of the Company and the auditors of the Company. The results of the review conducted by the independent non-executive Directors and the auditors of the Company are disclosed in the annual report of the Company.
- (6) Documents and records with respect to related party/connected transactions are required to be maintained and kept properly.

1.2.3 Historical figures

The historical figures of the Securities and Financial Products Transactions contemplated under the 2018 Everbright Group Financial Products and Services Framework Agreement between the Group and the Everbright Group and its associates for each of the two financial years ended December 31, 2020 and for the six months ended June 30, 2021 are as follows:

Securities and Financial Products Transactions	Approximate historical transaction figures		
	for the year ended		for the
	December 31,		six months
	2019	2020	ended June 30,
			2021
	<i>(RMB million)</i>		
In ⁽¹⁾	117,600	165,100	60,200
Out ⁽²⁾	134,500	168,900	65,400

Notes:

- (1) “In” means the total cash inflow to the Group arising from sale of fixed income products and equity related products, interest received from derivative products associated with fixed income products, and through borrowing/repurchase from financing transactions.
- (2) “Out” means the total cash outflow from the Group arising from purchase of fixed income products and equity related products, interest paid for derivative products associated with fixed income products, and through lending/reverse repurchase from financing transactions.

1.2.4 Annual caps

Due to the nature of the Securities and Financial Products Transactions as described below, the Company considers that it is impracticable to set a maximum aggregate annual value for each category of these transactions:

- (1) the volume of the Securities and Financial Products Transactions is affected by various external factors, such as economic and market conditions. Fluctuations in the PRC and Hong Kong financial markets may cause fluctuations in the volume of these transactions. Accordingly, the volume of these transactions varies from time to time and from year to year, and reference to historical figures for these transactions may not be a fair indication of the expected aggregate value of the transactions for the next three years;

- (2) each of the Securities and Financial Products Transactions is entered into at the prevailing market prices in the ordinary and usual course of the Group's business with high frequency and is market-driven, which is based on, among others, the bidding price and timeliness of the bids. For example, the Company enters into interbank lending transactions and repurchase transactions with counterparties (including the Everbright Group and its associates) in open markets through the National Interbank Funding Center. The prices and process of these transactions are highly transparent. The rates for interbank lending are publicly published, while the interest rate for repurchases are determined in accordance with the benchmark repurchase rate. The Company's counterparties in these transactions are determined primarily by transaction prices and timeliness, instead of by the Company's subjective consideration;
- (3) most of these transactions are entered into in a very short time frame and are very sensitive to market prices. 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. Strict adherence to the requirement of setting a maximum aggregate annual value for these transactions is impracticable to the Group;
- (4) the Company or its subsidiaries plays a relatively passive role in some of the Securities and Financial Products Transactions that the Company or its subsidiaries enters into with the Everbright Group and its associates and as such, it is difficult for the Company or its subsidiaries to estimate the expected aggregate value of these transactions. For example, Everbright Bank invests in the asset management schemes issued by the Company or its subsidiaries with funds from its banking customers. In making such investment decisions, Everbright Bank is free to choose which asset management schemes to invest in, just like any other investors in the market. As a listed company, Everbright Bank exercises independent judgment when making such investment decisions and has adopted internal control measures to monitor its investment decision making. The Company or its subsidiaries has no control over which asset management schemes or financial products Everbright Bank chooses to invest in, as well as the amount of its investments; and
- (5) all such transactions will continue to be entered into at the prevailing market prices in an open market in the ordinary and usual course of the Group's business.

Based on the above reasons, the Company considers that it is more practicable to set annual caps for the total inflow and outflow of the Securities and Financial Products Transactions instead.

The Directors of the Company propose that the annual caps of the total inflow and outflow of the Securities and Financial Products Transactions under the 2021 Everbright Group Financial Products and Services Framework Agreement between the Group and the Everbright Group and its associates for each financial year of 2022, 2023 and 2024 are as follows:

Securities and Financial Products Transactions	Proposed annual caps for the year ending December 31,		
	2022	2023	2024
	<i>(RMB million)</i>		
In ⁽¹⁾	560,000	670,000	804,000
Out ⁽²⁾	560,000	670,000	804,000

Notes:

- (1) “In” means the total cash inflow to the Group arising from sale of fixed income products and equity related products, interest to be received from derivative products associated with fixed income products, and through borrowing/repurchase from financing transactions.
- (2) “Out” means the total cash outflow from the Group arising from purchase of fixed income products and equity related products, interest to be paid for derivative products associated with fixed income products, and through lending/reverse repurchase from financing transactions.

1.2.5 Basis for determining the proposed annual caps

When estimating the annual caps for the inflow and outflow of these transactions, the Directors of the Company have taken into account, among others, the following factors:

General factors

- (1) The financial market in the PRC continues to develop and new securities and financial products are constantly issued

According to the statistics of the PBOC, the bond market in the PRC maintained stable operation from 2019 to 2020. The issuance volume of bonds increased significantly, the existing size expanded and the transaction settlement recorded higher growth. In 2020, the bond market witnesses the issuance of various bonds with RMB37.75 trillion, representing a year-on-year increase of 39.62%. The total custody amount in the bond market reached RMB104.32 trillion, representing a year-on-year increase of 19.38%. The transaction settlement amount in the bond market totaled RMB1,540.11 trillion, representing a year-on-year increase of 17.81%. Since 2019, various innovative securities and financial products in the PRC have constantly been launched. As the opening-up of the PRC financial industry accelerates, the financial market structure will further expand, alongside with more diversified financial products, resulting in more frequent Securities and Financial Products Transactions.

- (2) Increasing cooperation between the securities companies and the banks and investments in each other's financial products

The liberalization of interest rates in China has led the banking institutions in China to turn to wealth management products to attract deposits from customers. Although the commercial banks in China have good customer networks, they are still at an early stage of exploration in aspects of research, investment and settlement management, product design and assets management. In addition, the commercial banks in China are restricted by the PRC laws and regulations to engage in equity investments. The asset management products and funds of the securities companies can therefore provide better investment channels to the commercial banks in China, including direct investment in equity investments.

It is expected that Everbright Bank will increasingly invest in the asset management products and funds issued by the Group to take advantage of the professional knowledge and experience of the Group in research and development and management of financial products. On the other hand, the Group can also increase the investment in the wealth management products of Everbright Bank for obtaining stable investment returns.

- (3) Rapid growth of business scale of the Everbright Group and the advancing of synergistic strategy

In recent years, the Everbright Group achieved rapid business development and has been ranking higher among the Global 500. The level of its operation and management continuously increased and the business development maintained good momentum. In 2019, the Everbright Group launched the E-SBU coordinated development strategy with an aim to enhance its cooperation with companies comprising the Everbright Group and realize synergies in aspects such as customer base expansion and channel exploration. The Company is committed to building an ecosystem of coordinated business development and providing diversified and integrated financial products and services to domestic and overseas customers. Full internal and external linkage and distinctive synergy has created balanced and stable revenue streams for the Company. From 2022, the Group will facilitate coordination and linkage, integrate the resources of the Company, and give play to cluster advantages. It will continue to explore internal potential, vigorously expand sources of revenue and promote the stable growth of various businesses.

- (4) Expansion of the Group's business scope and introduction of innovative products

The Group provides extensive financial products and services to its customers. In recent years, the Group has been focusing on the transformation of product sales and revenue model. It built three product systems, further improved product evaluation and asset allocation capabilities and continued to enrich the types and quantities of its financial products. For example, the Company introduced the first mutual REITs on water in the PRC and other innovative products, the first ABN program on state subsidy tariffs as well as the first corporate bond on technological entrepreneurship of central enterprise groups in 2021. Therefore, it is expected that the total net inflow and total net outflow of the Securities and Financial Products Transactions will further grow.

Specific factors and considerations

(1) The Group will continue to conduct trading on securities products with fixed income features with the Everbright Group together with its associates in the ordinary course of business in the following three financial years. Considering the scale expansion of the bond financial market in the PRC and the market trends, the corresponding total inflow and outflow will increase, the following repurchase business and bond trading business in particular.

(i) For the repurchase business, the Company reduced the position based on changes to market conditions from 2019 to 2020. The price spread among capitals with different terms expanded due to the increased volatility of market interest rates under the impacts of the reoccurrence of the pandemic. To effectively reduce the cost on capital operations, the Company shortened the trading terms of capitals and improved the frequency of trading. The trend is expected to further continue.

In addition, based on the market trends since 2021, the Company plans to gradually expand the overall size of the repurchase business in the following three years. The trading volume of capitals arising from the repurchase business will enjoy huge growth potential in the following three years. It is expected that the total cash inflow and outflow will double in 2022 and increase at a lower average speed of approximately 20% each year from 2023 to 2024.

(ii) The bond transactions between the Group and the Everbright Group together with its associates are mainly the purchase of bonds underwritten by Everbright Bank and issued by other companies comprising the Everbright Group. As a major participant in the bond underwriting market, Everbright Bank has achieved rapid business development in recent years. In 2020, the total amount of bonds underwritten by Everbright Bank recorded a year-on-year increase of 70% and the scale of bonds issued by companies comprising the Everbright Group recorded a year-on-year increase of 137.7%. Meanwhile, the amount of bonds of Everbright Bank purchased by the Group increased significantly in recent years. With the further expansion of the bond financial market in the PRC and the strong development momentum of the bond underwriting business of Everbright Bank, it is expected that the size of bonds underwritten by Everbright Bank and issued by other companies comprising the Everbright Group to be purchased by the Group will increase substantially, which will maintain an annual increase of approximately 70% from 2022 to 2024.

(2) The Company mainly conducts asset management business through its wholly-owned subsidiary, Everbright Asset Management. As the transitional period for the implementation of new regulations on asset management will end in the end of 2021, Everbright Asset Management is expected to complete the rectification of the existing products by the end of 2021

to create more favorable conditions for the business development of the Company. Meanwhile, the Measures for the Supervision and Administration of Mutual Fund Managers (Draft for Solicitation of Comments) (《公開募集證券投資基金管理人監督管理辦法(徵求意見稿)》) issued by the CSRC proposed to relax restrictions on the qualification of mutual fund managers. Everbright Asset Management plans to apply for the abovementioned qualification after the implementation of the regulation to carry out asset management business in broader and more standard industries.

As at the end of 2020, the size of assets under management of Everbright Asset Management was RMB233.612 billion and the assets under active management increased 14.5% from the previous year. Driven by the coordinated cooperation strategy of the Everbright Group, Everbright Asset Management will carry out closer business cooperation with Everbright Bank, Everbright Trust and Everbright Wealth Management under the Everbright Group. The size of business cooperation between Everbright Asset Management and companies comprising the Everbright Group surged rapidly in recent years. For example, the existing business scale with Everbright Trust as at the end of 2020 increased 7.7 times as compared with the end of 2019. It is expected that the total inflow and outflow of onshore and offshore asset management products between the Group and the Everbright Group together with its associates will further increase in the following three financial years.

- (3) Based on the lending business under the cooperation between the Company and other major state-owned joint-stock banks, the total flow reached RMB957.3 billion (with counterparties including China Guangfa Bank, SPD Bank, Postal Savings Bank of China, Ping An Bank, China Minsheng Bank, etc.) in 2020, representing a year-on-year increase of 300%, of which, the flow with Everbright Bank was RMB38 billion. It is expected that the total interbank lending flow of the Company will reach RMB1,200 billion in 2021 and the average flow with each counterparty will be approximately RMB240 billion, which is expected to grow at a rate of about 5% in the following three years.

If the amount of the lending transactions of the Company increases in the future or the price of Everbright Bank is fair, the lending transactions between the Company and Everbright Bank will increase to the average flow with the abovementioned five banks. The interbank lending transaction flows between the Company and Everbright Bank is expected to increase by 4%, 5% and 5% in 2022, 2023 and 2024, respectively.

- (4) The financial derivatives market in the PRC developed rapidly in recent years. The Company established the Financial Innovation Business Headquarters in early 2021 to develop the derivatives investment and trading business, and began to conduct more frequent and large-scale financial product transactions with other members of the Everbright Group. The Company expects that the size of the following three types of financial product transactions is estimated to increase significantly in the following three financial years:
- (i) As key market participants, Everbright Trust and Everbright Bank are providing increasingly diversified and strategized products for wealth management customers. With the strong demand for providing customers with downside protection and value investment, there is an increasingly growing need for the Company to provide a large quantity of income receipts as investment products. On the basis of considering the overall size of similar business transactions of leading securities companies in the industry and the pricing conditions in the market, the Company estimated the total amount of income receipts transactions with the Everbright Group together with its associates each year. It expected that with the further deepening of the cooperation between the Financial Innovation Business Headquarters and the Everbright Group together with its associates, the scale of such business will grow substantially in the following three financial years.
 - (ii) The Company also conducts the corporate OTC derivative business through the Financial Innovation Business Headquarters and the Everbright Group together with its associates. While conducting business with companies comprising the Everbright Group with OTC options, income swaps and other equity products, the Financial Innovation Business Headquarters will provide a large quantity of performance guarantees for such transactions. With reference to the business performance of leading securities companies in the market and on the basis of the estimated nominal principal and the performance guarantee proportion, the Company expects that the total inflow and outflow on the OTC financial derivative transactions with the Everbright Group together with its associates will increase significantly in the following three financial years.
 - (iii) In terms of customer services for companies comprising the Everbright Group, the Financial Innovation Business Headquarters provides corporate customers within the Everbright Group with share repurchase, share reduction and other services and provides listed companies within the Everbright Group and substantial shareholders with private placement, M&As, employee stock ownership plans and other resolutions on derivatives through the different structures of OTC

derivatives. Currently, the Everbright Group has 12 listed companies in total. With reference to the market capitalization and share prices of listed companies within the Group and on the basis of the current demands for corresponding derivatives, the Company expects to record financial derivative transactions with larger size in the following three financial years.

1.3 “Securities and Financial Services” under the 2021 Everbright Group Financial Products and Services Framework Agreement

1.3.1 Pricing basis for the Securities and Financial Services

Pricing basis for the Securities and Financial Services to be provided by the Group to the Everbright Group and its associates

The Group primarily charges service fees, commissions and other fees for the Securities and Financial Services to be provided to the Everbright Group and its associates. The respective pricing mechanisms for the relevant Securities and Financial Services are set forth below:

- (1) **underwriting and sponsorship services:** the securities underwriting and sponsorship services market is highly competitive and the commission rates and fees have become generally transparent and standardized across the market. The commission rates and fees charged to the Everbright Group and its associates by the Company are determined based on arm’s length negotiation with reference to factors including the prevailing market rates for offerings of a similar type and the amount of proceeds raised from the offering.

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 complexity of the transaction, the size of the transaction, the frequency the relevant customer engaging in transactions with the Company and the prevailing market conditions. Based on the foregoing 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 fee for enterprise bonds, the Company mainly refers 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2007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 fee for corporate bonds, interbank products and asset securitization products, given that the competent authorities have not formulated any guidance on the underwriting fee of such products, the underwriting fees among the industry vary according to the issuer, type and term of bonds. The rate charged by the Company generally ranges from 0.01% to 0.5%, which is mainly determined based on the foregoing factors and negotiations with issuer and competitive bidding.

- (2) **brokerage services:** the commission rates for these services have become generally transparent and standardized across the market. The commission rates are determined based on arm's length negotiation with reference to the prevailing market rates for securities, which, for trading of A shares on the Shanghai Stock Exchange and B shares on the Shenzhen Stock Exchange, cannot exceed 0.3% of the amount of the relevant securities trade or lower than the relevant fees paid to the relevant securities exchange, or futures sales or trades of a similar type and the amount of the sale or trade.

With respect to futures brokerage services, Everbright Futures charges all customers a fee for futures trading of no less than the standard fee charged by the relevant futures exchanges. In the event that adjustments are made by the relevant futures exchanges to the standard fee, Everbright Futures will also make corresponding adjustments to the standard fee charged to all customers.

- (3) **proxy sale of financial products services:** the pricing for proxy sale of financial products services shall be determined in accordance with the Company's business guiding principle for proxy sale of financial products and based on the prevailing practice of proxy sale business conducted by financial institutions including securities firms and commercial banks with reference to the type of financial products sold by proxy and the frequency the investor engaging in transactions with the Company after arm's length negotiation of the parties. There is no standardized quotation for proxy sale of financial products on the market. The Company primarily determines the general pricing range based on the studies of industry's general practice, feedbacks and opinions on pricing from issuers of financial products.
- (4) **entrusted asset management services:** entrusted asset management services mainly include targeted and specialized asset management services. Asset management service fees shall be determined based on factors including market rates, market practices, the scale of assets under management of the asset management schemes and the management terms.

For targeted asset management services, the Company charges management fees as a certain percentage of the scale of assets under management based on the standard fee rate for each separate asset management scheme. For specialized asset management services, the management fees charged by the Company are determined on arm's length negotiation based on factors including the current market rates, the scale of the entrusted assets and the complexity of provision of tailored services.

The Company may obtain the prevailing market rates through publicly available information in the industry (such as the information published on the official website of peers or the information published by third party information platforms such as Wind Info), feedback from sale channels and communications with peers.

- (5) **leasing of trading seats:** the commission rate charged on the leasing of trading seats is generally transparent across the market. The Company charges a percentage of the trading volume in respect of each trade conducted through its trading seats as its commission where such percentage shall be determined based on the then prevailing market price and industry practice.
- (6) **advisory and consulting services:** fees for such services are determined based on arm's length negotiation with reference to the prevailing market rates for transactions of similar type and size and taking into account the nature of the transaction, the complexity and the size of the transaction, the frequency the relevant customer engaging in transactions with the Company and the prevailing market conditions. The Company provides the quotation to the customers based on the foregoing factors. After the customer has accepted the quotation of the Company, both parties will enter into the service agreement and provide services in accordance with the agreement.
- (7) **PPP financial services:** the fee for PPP financial services provided by the Group to the Everbright Group and its associates is primarily determined with reference to the market rates of PPP projects of similar type and size after arm's length negotiation and taking into account the financing size agreed upon between the party seeking financing and the social capital party to the PPP project.
- (8) **financial leasing services:** the rates of such services have become generally transparent and standardized across the market. The rental interest and rates charged to Everbright Group and its associates by Everbright Fortune Leasing are determined based on the then funding and management costs of Everbright Fortune Leasing in addition to reasonable profits on arm's length negotiation after taking into account the risks associated with the financial leasing projects and market competition.
- (9) **factoring services:** the rates of such services have become generally transparent and standardized across the market. The rates charged to the Everbright Group and its associates are determined based on the then funding and management costs of the Company in addition to reasonable profits on arm's length negotiation after taking into account the risks associated with the factoring projects and market competition.

- (10) **Custody and outsourcing services:** the rates of such services have become generally transparent and standardized. The Company performs the functions of asset custody, investment liquidation, valuation accounting, investment supervision, information disclosure and reporting in accordance with the requirements of laws and regulations and the provisions of the fund contract. Relevant rates shall be determined based on arm's length negotiation with reference to the factors including market competition.
- (11) **Insurance brokerage and consultancy services:** such services include but are not limited to brokerage businesses such as medical insurance, life insurance, accident and injury insurance, employee welfare insurance, property insurance and general liability insurance, as well as consulting services for various insurance products. Relevant rates shall be determined based on arm's length negotiation with reference to the factors including market competition.

Pricing basis of the Securities and Financial Services to be provided by the Everbright Group and its associates to the Group

The Everbright Group and its associates primarily charge services fees for the Securities and Financial Services to be provided to the Group. The respective pricing mechanisms for the relevant Securities and Financial Services are set forth below:

- (1) **deposit services:** the deposit interest rate shall not be less than the similar deposit interest rate of the commercial bank approved by the PBOC for the same period, and shall be determined according to the market rates of deposits in the financial industry, and shall not be less than the interest rate offered by Everbright Bank to other customers for similar deposits.
- (2) **proxy sale of financial products services:** the pricing for proxy sale of financial products services shall be determined based on the prevailing practice of proxy sale business carried on by financial institutions including securities firms and commercial banks with reference to the type of the financial products sold by proxy after arm's length negotiation of the parties. The pricing for proxy sale of different types of financial products varies.
- (3) **deposit management and custody services:** the management and custody fees are determined on arm's length negotiation with reference to current market rates and taking into account the size of the products and the nature of the products.
- (4) **loan services:** the interests on the financing shall be determined by reference to the relevant interest rates stipulated by the PBOC for the same period, and will take into account the factors such as the purpose and terms of the financing.

- (5) **insurance services:** the Company purchased insurance services primarily through tender organized by the Company's Bulk Procurement Management Centre (大額採購管理中心) where a number of insurers capable of providing the insurance services required by the Group are invited to submit their bids. The reviewing team comprising personnel from the Bulk Procurement Management Centre, Finance and Treasury Department, and Legal and Compliance Department of the Company will conduct a comprehensive assessment based on the type of services provided by the insurers submitting the biddings, their quotations and relevant experience by adopting the scoring method to select insurance service provider. As such, the pricing of the insurance services is primarily determined by competitive bidding.
- (6) **financial leasing services:** the rates of such services have become generally transparent and standardized across the market. The rental interest and rates charged to the Group by the Everbright Group and its associates are mainly determined on arm's length negotiation with reference to the general market fee rates and in conjunction with the potential risks of specific financial leasing projects.
- (7) **factoring services:** the rates of such services have become generally transparent and standardized across the market. The rates of factoring fees charged to the Group by the Everbright Group and its associates are mainly determined on arm's length negotiation with reference to the general market fee rates and in conjunction with the potential risks of special factoring projects.

1.3.2 Pricing approval and supervision

The Group has adopted a series of internal pricing policies and approval procedures to regulate the mutual provision of the Securities and Financial Services between the Group and the Everbright Group and its associates. The major internal policies include the following:

- (1) The terms (including pricing terms) in respect of the Securities and Financial Services shall be comparable to those offered by/to an independent third party for comparable services, and shall be subject to the same internal selection, approval and supervision procedures and pricing policies applicable to an independent third party.
- (2) The Group has subscribed for information services provided by information service providers, such as Wind Info, and has access to information channels and websites of official and voluntary industry regulatory authorities. The Company will consider the various updated market information available, including published information on completed transaction amounts and rates, and terms offered by the transaction parties prior to entering into the Securities and Financial Services.

- (3) In respect of the Securities and Financial Services to be provided by the Everbright Group and its associates to the Group, the Company or its subsidiaries will collect information of certain suppliers who could provide similar Securities and Financial Services (including the information about fee and price level) and compare the quality and price level of the services provided by the independent third party with that offered by the Everbright Group and the associates of Everbright Group. The Group will generally refer to the pricing provided to two or more independent third parties for similar services to determine whether the prices and terms offered by the Everbright Group and its associates are fair and reasonable and no less favourable than those offered by the independent third parties to the Group.
- (4) In respect of the Securities and Financial Services to be provided by the Group to the Everbright Group and its associates, the Company or its subsidiaries will refer to the pricing provided to two or more independent third parties for similar services to determine whether the prices and terms offered by the Company or its subsidiaries to the Everbright Group and its associates are fair and reasonable and no more favourable than those offered by the Company or its subsidiaries to the independent third parties.
- (5) The Related Party/Connected Transactions Working Group collects data from the relevant business departments and the Company's subsidiaries and reviews the actual transaction amounts of different types of the Securities and Financial Services on a regular or ad hoc basis to ensure that the annual caps would not be exceeded and remind the business departments and the Company's subsidiaries to supervise and control such connected transactions.
- (6) The continuing connected transactions are subject to the annual review by all the independent non-executive Directors, the internal audit department of the Company and the auditors of the Company. The results of the review conducted by the independent non-executive Directors and auditors of the Company are disclosed in the annual report of the Company.
- (7) Documents and records with respect to related party/connected transactions are required to be maintained and kept properly.

1.3.3 Historical figures

The historical figures of the securities and financial services contemplated under the 2018 Everbright Group Financial Products and Services Framework Agreement between the Group and the Everbright Group and its associates for each of the two financial years ended December 31, 2020 and for the six months ended June 30, 2021 are as follows:

Securities and Financial Services	Approximate historical transaction figures		
	for the year ended December 31,		for the six months ended June 30,
	2019	2020	2021
	<i>(RMB million)</i>		
Revenue generated by the Group from provision of securities and financial services to the Everbright Group and its associates	250.6	329.9	102.1
Fees paid by the Group to the Everbright Group and its associates for their provision of securities and financial services	223.4	153.4	65.3

1.3.4 Annual caps

The Directors of the Company propose the annual caps for the continuing connected transactions in respect of the mutual provision of securities and financial services between the Group and the Everbright Group and its associates for each of 2022, 2023 and 2024 as follows:

Securities and Financial Services	Proposed annual caps for the three years ending December 31,		
	2022	2023	2024
	<i>(RMB million)</i>		
Revenue to be generated by the Group from provision of securities and financial services to the Everbright Group and its associates	1,145	1,374	1,718
Fees to be paid by the Group to the Everbright Group and its associates for their provision of securities and financial services	849	1,019	1,274

1.3.5 Basis for determining the proposed annual caps

Basis of determination of the proposed annual caps for the revenue to be generated by the Group from provision of the Securities and Financial Services to the Everbright Group and its associates

When estimating the annual caps for the revenue to be generated from provision of the Securities and Financial Services to the Everbright Group and its associates, the Directors have considered, among other things, the following key factors:

- (1) The Company has estimated the annual caps based on the historical transaction amount for the two financial years ended December 31, 2020 and for the six months ended June 30, 2021.
- (2) As a financial holding group with industry-finance integration, the Everbright Group has many listed companies in Hong Kong and Mainland China. Meanwhile, it has cultivated and is cultivating various enterprises with influence in health, environmental protection, technology and other industries and is expected to enter the domestic capital market in the following three years. Under the general background of encouraging direct financing by the central government and the reform of the registration-based IPO system in the domestic securities market, the re-financing, IPOs and other financing demands and the demand for financial advisory on M&As and reorganizations and other businesses of relevant listed companies and industrial enterprises under the Everbright Group will increase significantly. As a comprehensive securities company controlled by the Everbright Group, the Company enjoys strong competitiveness in the above business sectors. It is expected that the income from the Group's investment banking business will record higher growth.

Specifically, despite an income of RMB47.22 million from the investment banking business in the first half of 2021 with an annualized growth rate of 63%, which exceeded the income from the investment banking business in the whole year of 2018, the Company believes that the historical transaction amount has limited reference value. Based on the demand of subsidiaries of the Group for capital operation services and the number of projects currently under progress and subject to the progress of the projects and the difficulty in estimating the subsequent market regulatory environment, it is difficult to judge the actual years for the realization of such income. With further reference to the expected progress of projects and the charges on large-scale projects in the market, it is expected that the income from the investment banking business from the Everbright Group together with its associates will increase significantly in the following three financial years.

- (3) The Group leases trading seats to Everbright Bank, Sun Life Everbright Life Insurance Co., Ltd. (光大永明人壽保險有限公司) (“**Sun Life Everbright**”), Everbright Limited, China Everbright International Limited and other associates of the Everbright Group. During the period from 2019 to 2021, the income of the Group from the commissions on leasing trading seats to the Everbright Group and its associates maintained an annual average increase of 40%. Considering the advancing of the synergistic strategy of the Group and that the Company will continue to maintain a high proportion, it is expected that the transaction scale on commission will continue to increase substantially in the following three financial years.
- (4) The counterparty of the custodian qualification of investment fund between the Company and members of the Everbright Group is mainly Everbright Xinglong Trust Co., Ltd. (“**Everbright Trust**”). Specifically, it provides outsourcing services on electronic contracts and units registration to Everbright Trust and charges outsourcing fees. The actual revenue in recent two years was approximately RMB6 million each year.

In May 2020, the CBIRC formulated the Interim Measures for the Administration of Fund Trusts of Trust Companies (Draft for Solicitation of Comments) to implement new regulations on asset management, specifying that the fund trust business shall adhere to the positioning at private businesses and introducing restrictions on the proportion of non-standard investments. As a result, trust companies face the business transformation on net-value transformation and will embark on the development of the standard product trust business.

For the transformation of new standard product trusts, the Company plans to provide Everbright Trust with outsourcing services on valuation and calculation in addition to the outsourcing service on units registration and the charging standard will be calculated based on the size of services multiplies the corresponding annualized service rate. Based on the transformation progress of net-value standard product trusts of Everbright Trust, it is expected that the total income from the provision of units registration and valuation and calculation outsourcing to the trust plans under Everbright Trust by the Group will increase significantly in 2022 and will slow down correspondingly based on the size of standard product trusts for transformation from 2023 to 2024.

- (5) In July 2021, the Company received the Reply on Matters Regarding Conducting Pilot Fund Investment Advisory Business by Everbright Securities Company Limited issued by the CSRC and was granted the qualification for pilot on public funds investment advisory business. Considering the extensive professional knowledge of the Group on the provision of research, investment advice and investment management as well as the increasing cooperation between the Group and the Everbright Group together with its associates, it is expected that the investment advisory and consultancy services to be provided by the Group to the Everbright Group together with its associates will increase substantially.

- (6) Professional institutional investors represented by mutual funds have recorded outstanding performance since 2020, driving the rapid growth in business revenue from the proxy sales of financial products by financial institutions. As at the end of 2020, the Group conducted proxy sales of Everbright Group and its associates more frequently with an increasing size. It is expected to maintain continuous growth in the following three financial years. Based on the business development plan on proxy sales of funds, the Company will conduct in-depth cooperation with Pramerica Fund and Dacheng Fund through Everbright Futures and the size of proxy sales of funds will expand year by year.
- (7) Benefiting from the reform of the capital market and the continuous changes in the regulatory environment, the issuance size of mutual funds hit a new high. Meanwhile, the business of wealth management subsidiaries of banks was rapidly standardized and the competition in the asset management industry is more intense. Driven by the recovery of the capital market and the acceleration in the issuance of equity-type products of mutual funds, the size of mutual fund management showed a trend of growth. According to the statistics from Wind Info, as of the end of 2020, the AUM of mutual funds market amounted to RMB20.02 trillion, excluding ETF feeder funds, representing a year-on-year increase of 36.5%.

The scope of the asset management business of the Company expanded and the Company has introduced various innovative asset management products. In view of the continuous increase in the number of companies comprising the Everbright Group and the advancing of the synergistic strategy, the Company will be able to provide asset management services to more companies comprising the Everbright Group.

Based on the above factors, it is expected that the size and category of asset management products managed by the Group and invested by the Everbright Group and its associates will expand in the following three financial years and the management fees to be charged by the Company from the Everbright Group and its associates will increase.

- (8) In the ordinary course of the business of the Company, the Company deposits its proprietary funds and customers' funds with Everbright Bank or invests in wealth management products. It is expected that the interest on its proprietary funds and customers' funds deposited with Everbright Bank and the investment in wealth management products will continue to contribute significant revenue. The Company has included the estimated interest to be paid by Everbright Bank on its proprietary funds and customers' funds deposited and wealth management revenue into the proposed annual caps. In addition to with reference to the actual interest paid by Everbright Bank on the Company's proprietary funds and customers' funds for the two financial

years ended December 31, 2020 and the six months ended June 30, 2021, the Company has considered the following factors in estimating the annual interest revenue on deposits to be paid by Everbright Bank and the wealth management revenue:

- (i) The Company estimates the size and upper limit of revenue of the corresponding wealth management products based on the investment cycle, amount and interest rate of wealth management products of Everbright Bank currently available. The flow of investments in the corresponding wealth management products is approximately RMB4.8 billion in 2022. The Company is expected to continue to expand the size of investments in wealth management products issued by Everbright Bank in the following three years to obtain table investment returns and the investment size will maintain an increase of about 20% each year. Based on the estimation on flows, the corresponding daily average size of wealth management products from 2022 to 2024 will be RMB2.2 billion, RMB2.64 billion and RMB3.17 billion, respectively. Calculated at the current return rate of approximately 3.3% on wealth management, the revenue from wealth management products will be RMB72.60 million, RMB87.12 million and RMB104.54 million from 2022 to 2024, respectively.
 - (ii) Everbright Futures obtained an interest income of RMB48,208,700 from Everbright Bank in the year of 2020, representing an increase of 805% from 2019. Currently, the customer equity in the futures industry shows a trend of significant growth. According to the statistics of China Futures Association, as at June 2021, the customer equity in the futures industry increased 59.53% from the same period of the previous year. Meanwhile, the Company's customer equity is also increasingly hiking. As at the end of July 2021, the Company's customer equity increased 110% from the same period of the previous year, which is far higher than the growth in the market. It is expected to result in significant increase in the corresponding proprietary funds and customers' funds.
- (9) When the Financial Innovation Business Headquarters serves companies comprising the Everbright Group with OTC options, income swaps and other equity products, such counterparties will pay fees on OTC options and fixed revenue on swaps to the Company. Such option fees are mainly priced based on the size of the nominal principal, the structure and targets of options. In addition, given that the return of equity-linked return swap products is linked to the performance of the underlying equity securities or stock index and due to the unpredictability of the volatility of the stock markets, it is expected that the realization ratio of the settlement of revenue will experience high volatility. The Company expects that the revenue from relevant financial services will grow at a rate of 50% in the following three years.

Basis of determination of the proposed annual caps for the fees to be paid by the Group for provision of the Securities and Financial Services by the Everbright Group and its associates

When estimating the annual caps for the fees to be paid by the Group to the Everbright Group and its associates for their provision of the Securities and Financial Services, the Directors have considered, among other things, the following key factors:

- (1) The Company has based the estimates on the historical transaction amount for the two financial years ended December 31, 2020 and for the six months ended June 30, 2021 when estimating the annual caps.
- (2) The Group mainly conducts the proxy sales of collective wealth management plans on asset management, mutual funds and other financial products through Everbright Bank. With the increasing size expansion of Everbright Bank, its proxy sales capability is enhanced correspondingly. Meanwhile, as at December 31, 2020, the size of deposits of Everbright Bank reached RMB3.4 trillion, representing an increase of 15% from the end of 2019. As a result, the size of customer capitals convertible into wealth management products under the proxy sales of Everbright Bank will expand.

With the implementation of medium and long-term strategic planning and the synergistic strategy by the Everbright Group, the enthusiasm of Everbright Bank in proxy sales of financial products issued by the Group is expected to boost. It is expected that the fees to be paid to Everbright Bank by the Group on the proxy sales of financial products through Everbright Bank will maintain an annual average growth rate of approximately 20% in the following three financial years.

- (3) Everbright Photon Investment Management Co., Ltd. (光大光子投资管理有限公司) (“**Everbright Photon**”), a subsidiary of Everbright Futures, has developed the OTC derivative business in recent years and the accumulated settlement of the nominal principal with wealth management subsidiaries of Everbright Securities and Everbright Bank increased. Currently, Everbright Photon is applying for the qualification on OTC swap businesses, which is expected to drive up the growth in the scale of snowball options and swap businesses. Considering the increasing maturity of relevant businesses and further development of the OTC derivatives market, the receipt of borrowings by Everbright Photon from the Company and the possibility of capital increase in Everbright Photon, its business size will increase significantly and the nominal principal of relevant businesses is expected to double in the following three financial years.
- (4) While conducting transactions on income receipt products with companies comprising the Everbright Group represented by Everbright Trust and Everbright Bank through the Financial Innovation Business Headquarters, the Company will pay proxy sales fees on financial products to the counterparties, which is charged at a market rate of 0.2% and the annual size is linked with the progress of cooperation projects on income receipt products each year. It is expected to increase significantly in the following three financial years.

- (5) The number of employees of the Company increased from 9,004 to 9,240 from 2018 to 2020. It is expected that the number of employees will further increase with the business expansion of the Group in the following three financial years, which will result in the corresponding increase in premiums to be paid by the Group. In addition, the scope of cooperation on insurance between the Group and Sun Life Everbright is expected to expand, resulting in expenses on group medical insurance, women's health insurance, the pandemic prevention insurance and other insurance.

In addition, the Group pays management charges on the enterprise annuity account to Everbright Bank. 2021 is the first year for the new enterprise annuity and the expense is expected to increase by 20%. It is expected to increase by no more than 15% from 2022 to 2024.

Based on the above factors, the expenses on premiums of the Group are expected to maintain an annual average growth of approximately 20% from 2022 to 2024.

The Company has taken into account the inflation factor when proposing the annual caps. The National Bureau of Statistics of China uses the annual growth rate of the consumer price index (CPI) to indirectly reflect the extent of inflation instead of directly calculating the inflation rate. Based on the growth rate of the CPI of China of 2018, 2019 and 2020 published by the National Bureau of Statistics of China and industry research reports, the Company has taken such estimation into account as an indicator of inflation level when estimating the annual caps for the following three financial years.

In addition, in determining the proposed annual caps for the following three financial years, the Company also assumes that for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the Group's businesses and those of the Everbright Group and its associates during the term of the Everbright Group Financial Products and Services Framework Agreement.

1.4 Waiver Application

In the ordinary course of the business of the Group, the Group deposits its proprietary funds and customers' funds with Everbright Bank (a connected person of the Company). Reference is made to the announcement of the Company dated September 17, 2018, which disclosed that the Company has applied for a waiver from the Hong Kong Stock Exchange from setting a maximum daily deposit limit on the deposits of the Group's proprietary funds and customers' funds placed with Everbright Bank, and the Hong Kong Stock Exchange has granted us a waiver from strict compliance with the maximum daily balance requirements set out in Rule 14A.53 of the Hong Kong Listing Rules. Given that such waiver will expire on December 31, 2021, the Company has again applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the maximum daily balance of the deposits as required under Rule 14A.53 of the Hong Kong Listing Rules. The Hong Kong Stock Exchange is yet to grant the Company such

a waiver. If the Hong Kong Stock Exchange does not approve the waiver application, the Board of Directors has agreed to approve the management of the Company to set a maximum daily deposit limit on the deposits of the Group's proprietary funds and the customers' funds placed with Everbright Bank in accordance with the applicable laws and regulations, the Hong Kong Listing Rules, the requirements of the competent regulatory authorities and the actual situation of the Group.

1.5 Reasons for and Benefits of Entering into the 2021 Everbright Group Financial Products and Services Framework Agreement

The reasons for and benefits of entering into the 2021 Everbright Group Financial Products and Services Framework Agreement between the Company and the Everbright Group are as follows:

- (1) The securities and financial products transactions and securities and financial services transactions under the 2021 Everbright Group Financial Products and Services Framework Agreement are and will be conducted in the ordinary and usual course of business of the Group. Such transactions will continue to be agreed on arm's length basis with terms that are fair and reasonable to the Company. Due to the historical and future long-term cooperation relationship between the Group and the Everbright Group and its associates, the Directors believe that it is beneficial to the Group to renew the Everbright Group Financial Products and Services Framework Agreement with the Everbright Group as the transactions thereunder have facilitated and will continue to facilitate the overall business operations and growth of the Group's business.
- (2) These transactions will provide cost synergies by integrating advantageous resources between the Group and the Everbright Group and its associates, thereby reducing the aggregate operational costs and general expenses so as to improve the profitability and to strengthen leading position of the Company in the securities industry.
- (3) Further, such continuing connected transactions will enable the Everbright Group and its associates to develop a deeper understanding in the operations of the Group, which in turn will render them more expedient and efficient services and/or product provisions to the Group when compared to those services and/or products provided by independent third parties.

The Directors are of the view that the securities and financial products transactions and securities and financial services transactions under the 2021 Everbright Group Financial Products and Services Framework Agreement will be conducted on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole. The view of the independent non-executive Directors of the Company on the 2021 Everbright Group Financial Products and Services Framework Agreement and the proposed annual caps will be set out in the letter from the Independent Board Committee contained in the circular to be despatched after considering the advice from the Independent Financial Adviser.

2. PROPOSAL OF RENEWAL OF NON-FINANCIAL MISCELLANEOUS SERVICES FRAMEWORK AGREEMENT

2.1 Background

In the course of ordinary business, the Everbright Group and its associates provide certain non-financial services to the Group, and the Group expects that it will provide certain non-financial services to the Everbright Group and its associates. The non-financial miscellaneous services provided by the Everbright Group and its associates to the Group include, but not limited to, information technology and Internet network services, conference services, title sponsor services, network maintenance, printing and publication, books and audio/video products, renovation, training, medical care, corporate travel management, advertising and promotion, property management, consultancy services, labor outsourcing related services and other non-financial services. The non-financial miscellaneous services to be provided by the Group to the Everbright Group and its associates include, but not limited to, information technology and Internet network services, lease of advertising places, logistics, warehouse, consultancy services, labor outsourcing and other non-financial miscellaneous services.

Reference is made to the announcement of the Company dated August 28, 2018, which disclosed that the Company and the Everbright Group entered into a non-financial miscellaneous services framework agreement (the “**2018 Everbright Group Non-financial Miscellaneous Services Framework Agreement**”) for a term of three years commencing from January 1, 2019 to December 31, 2021.

Taking into account the expiry of the 2018 Non-financial Miscellaneous Services Framework Agreement on December 31, 2021, the Company proposes to renew the non-financial miscellaneous services framework agreement between the Company and the Everbright Group (the “**2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement**”) on the basis of the 2018 Non-financial Miscellaneous Services Framework Agreement for a term of three years commencing from January 1, 2022 to December 31, 2024.

2.2 Pricing basis

The pricing of mutual provision of non-financial miscellaneous services between the Group and the Everbright Group and its associates shall be determined based on arm’s length negotiation between the parties in accordance with the relevant laws and regulations and on normal commercial terms which are no less favorable than those obtained by/offered to the independent third parties with respect to such services.

2.3 Pricing approval and supervision

To ensure that the transactions under the Everbright Group Non-financial Miscellaneous Services Framework Agreement above are conducted on normal commercial terms or on terms no less favorable than terms applicable to independent third parties, the Company has adopted additional internal control policies, including:

- (1) Before confirming the pricing of the transactions by the relevant departments and subsidiaries of the Company with the Everbright Group or its associates, the Group shall refer to the pricing offered to or quoted by two or more independent third parties for contemporaneous transactions in similar quantities to determine if the pricing and terms for the relevant transaction are fair, reasonable and no less favourable than those quoted by independent third parties to the Group or no more favourable than those offered by the Group to independent third parties, as the case may be.
- (2) The relevant departments and subsidiaries of the Company shall take the responsibility to prove that the connected transactions are entered into on normal commercial terms or on terms no less (more) favourable to those obtained or provided by independent third parties, and provide relevant evidence materials according to the requirements of the Working Group of the Related-party/Connected Transactions of the Company.
- (3) If the aforesaid pricing quoted by or offered to independent third parties cannot be obtained for a particular transaction, the relevant connected transaction will need to be separately considered. The relevant departments and subsidiaries of the Company shall state the specific reasons to the Working Group of the Related-party/Connected Transactions of the Company and elaborate on the necessity of the connected transactions and the fairness of pricing.
- (4) Any documents and records with respect to connected transactions are required to be maintained and kept properly.

2.4 Historical figures

A breakdown of the approximate historical transaction figures in respect of the provision of non-financial miscellaneous services by the Everbright Group and its associates to the Group for the two financial years ended December 31, 2020 and the six months ended June 30, 2021 is as follows:

Non-financial Miscellaneous Services	Approximate historical transaction figures		
	for the year ended December 31,		for the six months ended June 30,
	2019	2020	2021
Fees paid by the Group to the Everbright Group and its associates for their provision of non-financial miscellaneous services	5.4	6.9	2.8

2.5 Annual caps

The Directors of the Company estimate the annual caps for the continuing connected transactions in respect of the mutual provision of non-financial miscellaneous services between the Group and the Everbright Group and its associates for each of 2022, 2023 and 2024 as follows:

Non-financial Miscellaneous Services	Proposed annual caps for the three years ending December 31,		
	2022	2023	2024
	<i>(RMB million)</i>		
Revenue of the Group for the provision of non-financial miscellaneous services to the Everbright Group and its associates	5.0	5.0	5.0
Fees to be paid by the Group to the Everbright Group and its associates for their provision of non-financial miscellaneous services	89.0	104.0	119.0

2.6 Basis for determining the proposed annual caps

When estimating the annual caps for the transactions contemplated under the 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement, the Directors have based the estimates on the historical figures for the two financial years ended December 31, 2020 and for the six months ended June 30, 2021. In addition, the Directors have considered, among other things, the following key factors:

- (1) China Youth Travel Group Limited (中國青旅集團公司) (“**China Youth Travel**”) was merged into the Everbright Group in 2019. In order to further play the synergistic effect of various business lines among the enterprises within the Everbright Group, the Group has cooperated and will continue to cooperate with China Youth Travel for business travel services at fair market rates and conditions. Despite the overall travelling fees recorded a year-on-year decrease from 2019 under the impacts of the pandemic in 2020, the fees paid by the Group to China Youth Travel in respect of the business travel services increased during the year. With the business development of the Group and the effective control of the pandemic worldwide, the Group’s travelling expenses are expected to increase substantially. Meanwhile, the proportion of business travel services provided by China Youth Travel is estimated to increase to 60% in 2024. As a result, the fees to be paid by the Group to the Everbright Group and its associates in respect of the business travel services will increase.

- (2) With the further advancing of the IT strategic plans of the Everbright Group, the Company will focus on the synergistic strategy of the Group, coordinate technological innovation and carry out closer collaboration with Everbright Technology to provide higher-quality information technology services to companies comprising the Group. In addition, the Financial Innovation Business Headquarters of the Company is expected to conduct more cooperation with technology and information companies within the Group on the upgrading of systems for OTC businesses to diversify and enhance the inter-connection and innovation capability of its information services on financial derivatives. As a result, the Company expects that the size of the information technology and Internet-based services provided to the Group by the Everbright Group and its associates will increase significantly.
- (3) The Company employs Everbright Real Estate to provide property services to its headquarters building. On the basis of measuring the inflation index and the rise of staff salary in 2020, the Company comprehensively considered the components of other fees under property management fees (without considering additional fees possibly arising from various emergency decorations, interior decorations and overhauls) and expected to raise the property fees at an annual growth rate of 4.8% in the following three financial years.
- (4) In the ordinary course of business, the Group may, from time to time, provide the Everbright Group and its associates with information technology and Internet network services, lease of advertising places, logistics, warehouse, consultancy services, labor outsourcing and other non-financial miscellaneous services, and the provision of such services may generate revenue.

In addition, in arriving at the above proposed annual caps, the Directors have also taken into account the inflation factor, and were based on the assumptions that, during the term of the Everbright Group Non-financial Miscellaneous Services Framework Agreement, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group and those of the Everbright Group and/or its associates.

2.7 Reasons for and Benefits of Entering into the 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement

The reasons for and benefits of entering into the 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement between the Group and the Everbright Group are as follows:

- (1) Due to the historical and future long-term cooperation relationship between the Group and the Everbright Group and its associates as well as the wide scope of industries in which the Everbright Group and its associates are engaged in, including finance, environmental protection, cultural and travel, pharmaceutical and etc., the services described in the service scope of the Everbright Group Non-financial Miscellaneous Services Framework Agreement could be provided to/by the Everbright Group and its associates during the ordinary course of business and operation of the Company.

- (2) These transactions will provide cost synergies by integrating advantageous resources between the Group and the Everbright Group and its associates, thereby reducing the aggregate operational cost and general expenses so as to further improve the profitability and the leading position of the Company in the securities industry.
- (3) Furthermore, such transactions will provide the Everbright Group and its associates opportunities to better understand the operations of the Company, which in turn will enable the Everbright Group to render more expedient and efficient service and/or product provision to the Company when compared to those services and/or products provided by independent third parties.

The Directors (including the independent non-executive Directors) are of the view that transactions under the proposed Everbright Group Non-financial Miscellaneous Services Framework Agreement will be conducted on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

3. PROPOSED RENEWAL OF PROPERTY LEASING FRAMEWORK AGREEMENT

3.1 Background of Property Leasing Framework Agreement

In the course of ordinary business of the Group, the Group have leased certain properties from the Everbright Group and its associates for the Group's offices and business uses. The Everbright Group and its associates have also leased certain properties from the Group mainly for their business operations.

Reference is made to the announcement of the Company dated August 28, 2018, which disclosed that the Company and the Everbright Group entered into a property leasing framework agreement (the "**2018 Everbright Group Property Leasing Framework Agreement**") for a term of three years commencing from January 1, 2019 to December 31, 2021.

Taking into account the expiry of the 2018 Property Leasing Framework Agreement on December 31, 2021, the Company proposes to renew the property leasing framework agreement between the Company and the Everbright Group (the "**2021 Everbright Group Property Leasing Framework Agreement**") on the basis of the 2018 Property Leasing Framework Agreement for a term of three years commencing from January 1, 2022 to December 31, 2024.

3.2 Major Terms of the 2021 Everbright Group Property Leasing Framework Agreement

The major terms of the 2021 Everbright Group Property Leasing Framework Agreement are set out below:

- (1) The rental shall be determined based on the market rent applicable to the leased property.

- (2) The Company or its subsidiaries and the Everbright Group or its related associates shall enter into specific transaction agreements to set out the specific terms and conditions in respect of the relevant leased property according to the principles, and within the parameters, provided for under the Everbright Group Property Leasing Framework Agreement.
- (3) The Company or its subsidiaries and the Everbright Group and its associates are entitled to lease additional gross floor area from and among the available properties owned by the other party during the term of the Everbright Group Property Leasing Framework Agreement, and adjust the rental accordingly.
- (4) Based on relevant provisions in specific transaction agreements, any party entering into the specific transaction agreements may issue a notice to the other party to terminate the provision of a certain transaction within a reasonable time (where the corresponding market practice for the relevant transaction is to adopt a shorter notice period, the market practice shall prevail).

3.3 Pricing basis

The pricing of mutual property leasing between members of the Group and the Everbright Group and its associates shall be negotiated by the parties on a fair and reasonable basis with reference to the prevailing market rent applicable to the place where the leased property is located (being the rental received by the independent third parties in the ordinary course of business on normal commercial terms for the provision of similar type of leased property in the same region). In addition, the parties are entitled to lease additional gross floor area from and among the available properties of the other party and its members during the term of the agreement and adjust the rental.

3.4 Pricing approval and supervision

To ensure the aforesaid 2021 Everbright Group Property Leasing Framework Agreement is entered into on normal commercial terms or on terms no less favourable than terms applicable to independent third parties, the Company has taken additional internal control measures, including the following:

- (1) Before confirming the pricing of the transactions by the Group with the Everbright Group or its associates, the Group shall refer to the pricing offered to or quoted by two or more independent third parties for contemporaneous transactions in similar quantities to determine if the pricing and terms for the relevant transaction are fair, reasonable and no less favourable than those quoted by independent third parties to the Group or no more favourable than those offered by the Group to independent third parties, as the case may be.
- (2) The relevant departments of the Group shall take the responsibility to prove that the connected transactions are entered into on normal commercial terms or on terms no less (more) favourable to those obtained or provided by independent third parties, and provide relevant evidence materials according to the requirements of the Working Group of the Related-party/Connected Transactions of the Company.

- (3) If the aforesaid pricing quoted by or offered to independent third parties cannot be obtained for a particular transaction, the relevant connected transaction will need to be separately considered. The relevant departments of the Group shall state the specific reasons to the Working Group of the Related-party/Connected Transactions of the Company and elaborate on the necessity of the connected transactions and the fairness of pricing.
- (4) Any documents and records with respect to connected transactions are required to be maintained and kept properly.

3.5 Historical figures

A breakdown of the approximate historical transaction figures in respect of the rent received from and paid to the Everbright Group and its associates by the Group for the two financial years ended December 31, 2020 and the six months ended June 30, 2021 is as follows:

Property Leasing	Approximate historical transaction amounts		
	for the year ended December 31, 2019	for the year ended December 31, 2020	for the six months ended June 30, 2021
	<i>(RMB million)</i>		
Rental income received by the Group from the Everbright Group and its associates for the leased property	5.0	3.4	1.7
Rental expenses paid by the Group to the Everbright Group and its associates for the leased property	20.8	25.2	17.5

3.6 Annual caps

Based on the estimate of the Directors of the Company, the annual caps under the 2021 Everbright Group Property Leasing Framework Agreement for each of 2022, 2023 and 2024 are set out below. These caps are inclusive of management fees relating to the relevant leased properties (if any):

Property Leasing	Proposed Annual caps for the year ending December 31,		
	2022	2023	2024
	<i>(RMB million)</i>		
Rental income to be received by the Group from the Everbright Group and its associates for the leased property	8.0	8.0	9.2
Rental expenses paid by the Group to the Everbright Group and its associates for the leased property/total value of right-of-use assets involved	118.0 ^{Note 1}	184.0 ^{Note 1}	207.0 ^{Note 1}

Note:

1. The relevant cap of the lease of the Group as the lessee listed in the above table includes: (i) for properties leased from the Everbright Group and its associates with a term of one year or less, the Group's rental expenses expected to be paid in that year (period); and (ii) for the properties leased from the Everbright Group and its associates with a term of more than one year, the total value of right-of-use assets involved in the properties expected to be leased from the Everbright Group and its associates in that year (period).

3.7 Basis for determining the proposed annual caps

Rental to be received from the Everbright Group and its associates

When estimating the annual caps for the rental income to be received from the Everbright Group and its associates, the Directors have taken into account the above historical figures and also considered, among other things, the following key factors:

- (1) The Everbright Group and its associates will continue to lease more gross floor area from the Group in the three financial years ending December 31, 2024, considering the potential expansion of the business of the Everbright Group and its associates in the PRC.
- (2) The potential increase in market rental for commercial properties for the three financial years ending December 31, 2024.

Rental Expenses to be incurred by the Group

When estimating the annual caps for the rental expenses to be incurred by the Group, the Directors have taken into account the above historical figures and also considered, among other things, the following key factors:

- (1) The potential demand for office spaces arising from potential expansion of the Group's businesses in the PRC, Hong Kong and overseas and the further optimization of branches. The Group will incur higher expenses on property leasing arising from new securities branches and the relocation of offices in the three financial years ending December 31, 2024. For example, it is possible that EBSHK, a subsidiary of the Company, enters the Everbright Centre at Wanchai held by the Everbright Group as the office space in phases in the next few years. Therefore, it is expected that the rental expenses will increase in the next three years.
- (2) The potential increase in market rental for commercial properties for the three financial years ending December 31, 2024.

3.8 Reasons for and Benefits of Entering into the 2021 Everbright Group Property Leasing Framework Agreement

For the needs of operation and management and daily office, the Group leased certain of its premises in Beijing, Hong Kong and other cities in the PRC from the Everbright Group and its associates, and the Everbright Group and its associates also leased certain of its premises in Shanghai and other cities from the Group. The existing 2018 Everbright Group Property Leasing Framework Agreement will expire on December 31, 2021. With the continuous expansion of business scale, the Company expects to lease more office premises in the future. Therefore, it is necessary for the Company to renew the property leasing framework agreement with the Everbright Group to better monitor the continuing connected transactions between the two parties in relation to the property leasing and meet the business needs of both parties. The Directors (including the independent non-executive Directors) are of the view that the proposed transactions under the 2021 Everbright Group Property Leasing Framework Agreement will be conducted on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

4. IMPLICATIONS OF HONG KONG LISTING RULES

(1) Connected persons involved:

Connected person	Relationship with the Group
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Everbright Group:	As at the date of this announcement, Everbright Group is directly interested in 1,159,456,183 A Shares of the Company, representing 25.15% of the total issued share capital of the Company; and is indirectly interested in 960,467,000 A Shares of the Company, representing 20.83% of the total issued share capital of the Company. Accordingly, the Everbright Group is the controlling shareholder of the Company, and the Everbright Group and its associates are connected persons of the Company.
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Everbright Bank:	Everbright Bank is a consolidated subsidiary of Everbright Group and accordingly, is an associate of the Everbright Group, which in turn is a connected person of the Company
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Accordingly, under Chapter 14 of the Hong Kong Listing Rules, the Everbright Group and its associates are connected persons of the Company, and the transactions contemplated under the aforementioned framework agreements between the Group and the Everbright Group and its associates shall constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

(2) Implications of the Framework Agreements under Hong Kong Listing Rules

(1) *2021 Everbright Group Financial Products and Services Framework Agreement*

As the highest of the applicable percentage ratios in respect of (1) the proposed annual caps for the continuing securities and financial products transactions; and (2) the proposed annual caps for the continuing securities and financial services transactions contemplated under the 2021 Everbright Group Financial Products and Services Framework Agreement for the three financial years ending December 31, 2024 exceed 5% calculated according to the percentage ratios under the Hong Kong Listing Rules, such continuing connected transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Company has again applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the maximum daily balance of the deposit limit of the Group's proprietary funds and customers' funds placed with Everbright Bank as required under Rule 14A.53 of the Hong Kong Listing Rules. The Hong Kong Stock Exchange is yet to grant the Company such a waiver. If the Hong Kong Stock Exchange does not approve the waiver application, the Board of Directors has agreed to approve the management of the Company to set a maximum daily deposit limit on the deposits of the Group's proprietary funds and the customers' funds placed with Everbright Bank in accordance with the applicable laws and regulations, the Hong Kong Listing Rules, the requirements of the competent regulatory authorities and the actual situation of the Group.

(2) 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement

As the highest of the applicable percentage ratios in respect of the proposed annual caps for the continuing connected transactions contemplated under the 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement for the three financial years ending December 31, 2024 exceed 0.1% but are less than 5%, accordingly, such continuing connected transactions are subject to the reporting, announcement and annual review but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(3) 2021 Everbright Group Property Leasing Framework Agreement

As the highest of the applicable percentage ratios in respect of the proposed annual caps for the continuing connected transactions contemplated under the 2021 Everbright Group Property Leasing Framework Agreement for the three financial years ending December 31, 2024 exceed 0.1% but are less than 5%, accordingly, such continuing connected transactions are subject to the reporting, announcement and annual review but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

On August 26, 2021, the Board Meeting was held by the Company, at which the resolutions in relation to the 2021 Everbright Group Financial Products and Services Framework Agreement, 2021 Everbright Group Property Leasing Framework Agreement and 2021 Everbright Group Non-financial Miscellaneous Services Framework Agreement, and the annual caps for the continuing connected transactions contemplated thereunder were considered and approved. Mr. Yan Jun, Mr. Liu Qiuming (all being executive Directors of the Company), Mr. Song Bingfang, Mr. Fu Jianping, Mr. Yin Lianchen and Mr. Chan Ming Kin (all being non-executive Directors) are deemed to have a material interest in all of the above continuing connected transactions to be contemplated between the Group and the Everbright Group and have abstained from voting with respect to considering and approving these resolutions at the Board Meeting. Save as disclosed above, no other Directors have a material interest in such transactions and therefore did not abstain from voting with respect to the aforesaid resolutions at the Board Meeting.

5. GENERAL INFORMATION

5.1 Information about Everbright Group

Everbright Group is a state-owned enterprise incorporated under the PRC laws on November 12, 1990. It was promoted and established by the Ministry of Finance and Central Huijin Investment Ltd. (中央匯金投資有限責任公司). Currently, its businesses cover the finance and industry in Hong Kong and Chinese Mainland, and it has established agencies and business presence at home and abroad. It has a complete set of financial services licenses and featured businesses related to environmental protection, tourism, healthcare and high-tech industry. Everbright Group is a state-owned large-scale comprehensive finance holding group characterized by its overall finance, the integration of industry and finance and the combined advantages of Chinese Mainland and Hong Kong. It has been included in Fortune's Global 500 for seven consecutive years from 2015 to 2021.

5.2 Information about the Group

The Group is a leading full-service securities group in China with strong innovation capabilities and an integrated onshore and offshore business platform. As a core financial services platform of the Everbright Group, the Group benefits from synergies within the group and from the "Everbright" brand recognition. The Group offers a full range of financial products and services to a large and diversified client base that includes enterprises, financial institutions, governments and individuals. The Group's principal business lines comprise brokerage and wealth management, credit business, institutional securities services, investment management and overseas business.

6. EXTRAORDINARY GENERAL MEETING

The Company will convene an extraordinary general meeting for the purposes of, among other things, obtaining the Independent Shareholders' approval (if applicable) for the 2021 Everbright Group Financial Products and Services Framework Agreement and the proposed annual caps for the continuing securities and financial products transactions and securities and financial services contemplated thereunder. The Everbright Group and its associates will abstain from voting on the relevant resolutions.

The Independent Board Committee, comprising all the independent non-executive Directors of the Company, has been formed to advise the Independent Shareholders on the terms of the 2021 Everbright Group Financial Products and Services Framework Agreement and the proposed annual caps for the continuing securities and financial products transactions and securities and financial services contemplated thereunder.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the aforesaid matters.

A circular containing further details of the 2021 Everbright Group Financial Products and Services 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 proposed terms and the proposed annual caps of the 2021 Everbright Group Financial Products and Services Framework Agreement, will be despatched to the Shareholders on or before September 16, 2021.

7. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“A Shareholders”	holders of A Shares
“A Shares”	domestic shares of the Company with a nominal value of RMB1.00 each, which are listed on the SSE and traded in RMB
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Dacheng Fund”	Dacheng Fund Management Co., Ltd.(大成基金管理有限公司), a joint venture of the Company
“Board” or “Board of Directors”	the board of directors of the Company
“Company Law”	Company Law of the People’s Republic of China
“Company”	Everbright Securities Company Limited (光大證券股份有限公司), a joint stock company incorporated in the PRC with limited liability and whose H Shares and A Shares are listed on the main board of the Hong Kong Stock Exchange (stock code: 6178) and the SSE (stock code: 601788), respectively
“CSRC”	China Securities Regulatory Commission
“Director(s)”	directors of the Company
“Everbright Bank”	China Everbright Bank Co., Ltd. (中國光大銀行股份有限公司), a company incorporated under the laws of the PRC on June 18, 1992 and converted into a joint stock company with limited liability in 1997. Its A shares are listed on the SSE (stock code: 601818) and its H shares are listed on the Hong Kong Stock Exchange (stock code: 6818). Everbright Bank is a subsidiary of the Everbright Group due to consolidation of their financial statements and, therefore is a connected person of the Company

“Everbright Futures”	Everbright Futures Co., Ltd.(光大期貨有限公司), a wholly-owned subsidiary of the Company
“Everbright Group”	China Everbright Group Corporation Limited (中國光大集團股份公司) (previously known as China Everbright Group Limited (中國光大(集團)總公司)), a state-owned company incorporated under the laws of the PRC on November 12, 1990 and a controlling shareholder of the Company. The Everbright Group was converted into a joint stock company and renamed China Everbright Group Corporation Limited (中國光大集團股份公司) on December 8, 2014
“Everbright Limited”	China Everbright Limited (中國光大控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 165) and is the second largest shareholder of the Company
“Everbright Pramerica”	Everbright Pramerica Fund Management Co., Ltd. (光大保德信基金管理有限公司), a controlled subsidiary of the Company
“ETF”	exchange-traded fund
“Group”	the Company and its subsidiaries
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended from time to time
“H Shareholders”	holders of H Shares
“H Shares”	ordinary shares of the Company with a nominal value of RMB1.00 each, which are issued outside the PRC, listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars (stock code: 6178)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK dollars” or “HKD”	the lawful currency of Hong Kong
“Independent Board Committee”	an independent board committee comprising all Independent non-executive Directors (namely Mr. Wang Yong, Mr. Po Wai Kwong, Mr. Ren Yongping, Mr. Yin Junming and Mr. Liu Yunhong) has been formed to give advice to the Independent Shareholders with respect to the 2021 Everbright Group Financial Products and Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder

“Independent Directors” or “Independent non-executive Directors”	the independent non-executive Directors of the Company
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Hong Kong Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021 Everbright Group Financial Products and Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder
“Independent Shareholders”	those Shareholders who are not required to abstain from voting at the forthcoming extraordinary general meeting with respect to the resolutions to be proposed with respect to the 2021 Everbright Group Financial Products and Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder (other than Everbright Group and its associates)
“RMB”	Renminbi, the lawful currency of the PRC
“Securities Law”	Securities Law of the People’s Republic of China
“Shareholders”	shareholders of the Company, including A Shareholders and H Shareholders
“Shares”	shares of the Company, including A Shares and H Shares
“SSE”	Shanghai Stock Exchange

“Wind Info” or “Wind”

Wind Information Co., Ltd. (萬得信息技術股份有限公司), a company with limited liability incorporated in the PRC in 1994 and an integrated service provider of financial data, information and software, being an independent third party

By order of the Board
Everbright Securities Company Limited
Yan Jun
Chairman

Shanghai, the PRC
August 26, 2021

As at the date of this announcement, the board of directors of the Company comprises Mr. Yan Jun (Chairman, Executive Director), Mr. Liu Qiuming (Executive Director), Mr. Song Bingfang (Non-executive Director), Mr. Fu Jianping (Non-executive Director), Mr. Yin Lianchen (Non-executive Director), Mr. Chan Ming Kin (Non-executive Director), Mr. Tian Wei (Non-executive Director), Mr. Yu Mingxiong (Non-executive Director), Mr. Wang Yong (Independent Non-executive Director), Mr. Po Wai Kwong (Independent Non-executive Director), Mr. Ren Yongping (Independent Non-executive Director), Mr. Yin Junming (Independent Non-executive Director) and Mr. Liu Yunhong (Independent Non-executive Director).