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Southwest Securities International Securities Limited

西證國際證券股份有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 812)

**UPDATE ANNOUNCEMENT
IN RESPECT OF THE POTENTIAL TRANSACTIONS
PURSUANT TO
RULE 3.7 OF THE TAKEOVERS CODE,
RULE 13.09 OF THE LISTING RULES AND
PART XIVA OF THE SFO**

This announcement is made by the Company pursuant to Rule 3.7 of the Takeovers Code, Rule 13.09 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

I. BUSINESS COST SHARING AGREEMENT

The Board wishes to update the Shareholders and potential investors of the Company that on even date of this announcement (after trading hours), the Company, the Potential Individual Purchaser and the Potential Purchaser (the Potential Individual Purchaser is one of the ultimate beneficial owners of the Potential Purchaser) had entered into the Business Cost Sharing Agreement.

The principal terms of the Business Cost Sharing Agreement are summarised as follows:

Date : 25 October 2023

Parties : (i) The Company;
(ii) The Potential Purchaser; and
(iii) The Potential Individual Purchaser,
(together the “**Parties**” and each the “**Party**”).

Subject matter : The Potential Purchaser has agreed to bear (i) a lump sum fee payable to the Company for the sharing of revenue derived from the Licensed Corporations (“**Lump Sum Revenue**”); and (ii) share the expenses that had already incurred and to be incurred, directly or indirectly, by the individuals nominated by the Potential Purchaser as the responsible officers, licensed representatives and/or other staff in the Licensed Corporations (the “**Nominated Representative(s)**”) in respect of the business operations of the Licensed Corporations during the Sharing Term (as defined below), including (a) the wage expenses pertaining to the Nominated Representatives; and (b) the tax expenses incurred from the Relevant Income (as defined below) (altogether with the Lump Sum Revenue, the “**Relevant Revenue, Costs and Expenses**”).

The Parties had agreed that the Relevant Revenue, Costs and Expenses (except for the Lump Sum Revenue) that have been incurred or to be incurred throughout the Sharing Term (as defined below) are disbursement in nature that have been or will be paid by the Company on behalf of the Potential Purchaser. Subject to the terms and conditions of the Business Cost Sharing Agreement, the Potential Purchaser is obligated to repay the Company for all disbursed expenses incurred and to be incurred, and the Potential Individual Purchaser is obligated to indemnify the Company for non-payment by the Potential Purchaser.

Sharing Term : The sharing period is for a term (the “**Sharing Term**”):

- (i) commencing from 20 January 2023 (i.e. the date on which the first Nominated Representative had commenced employment at the relevant Licensed Corporation); and

- (ii) ending on the date being
 - (a) the completion date of the transactions pertaining to the entering into of a formal sale and purchase agreement for the Potential Transactions between SSII and the Potential Individual Purchaser; or
 - (b) the end date of the Exclusivity Period or the date of termination of the transactions pertaining to the formal sale and purchase agreement due to reasons other than completion, provided further that all the Nominated Representatives have (1) terminated (or if applicable, duly completed) all the business projects they have undertaken or participated in since their respective commencement of employment at the Licensed Corporations, or (2) effectively resigned or effectively ceased to be employed by the Licensed Corporations upon termination of the aforesaid business projects,

whichever is earlier.

The Sharing Term may be altered by the Parties mutually in writing.

- Calculation of the Relevant Revenue, Costs and Expenses and the Relevant Income** :
- For the purpose of calculating the amount of Relevant Revenue, Costs and Expenses incurred and the Relevant Income (as defined below) generated by the Nominated Representatives, the Company shall:
- (i) on a monthly basis, provide a statement (the “**Monthly Operational Statement**”), containing calculation of the income generated and received by the Licensed Corporations from the business projects undertaken by the Nominated Representatives (the “**Relevant Income**”) and the Relevant Revenue, Costs and Expenses;

- (ii) within 20 business days after the conclusion of the Sharing Term, the Company shall provide a statement (the “**Pre-Final Operational Statement**”) containing calculation of the total Relevant Income generated and received and the total Relevant Revenue, Costs and Expenses incurred during the Sharing Term; and
- (iii) as cash accounting is used by the Licensed Corporations in accounting for the Relevant Income, within 20 business days after six months from the last day of the Sharing Term (or any other period mutually agreed between the Company and the Potential Purchaser) (the “**Post-Sharing Term**”), the Company shall provide a statement (the “**Final Operational Statement**”), containing calculation of the total Relevant Income generated and received and the total Relevant Revenue, Costs and Expenses incurred during the Post-Sharing Term,

to the Potential Purchaser for its confirmation.

Business cost sharing and settlement arrangement : In addition to the reimbursement of all Relevant Revenue, Costs and Expenses by the Potential Purchaser as set out in the section headed “Subject Matter” above, during the Sharing Term, if, according to the relevant Monthly Operational Statement, the difference or accumulated difference between (A) the Relevant Revenue, Costs and Expenses payable by the Potential Purchaser and (B) the total accumulated Relevant Income up to the date of the relevant Monthly Operational Statement (and if applicable, all operational deficit differences that have already been settled by the Potential Purchaser) (the “**Operational Deficit Difference**”) reaches or exceeds HK\$3,000,000, the Company will issue a payment notice to the Potential Purchaser, requesting settlement of the Operational Deficit Difference.

Subject to the Company's provision of and the Potential Purchaser's confirmation on the Pre-Final Operational Statement and the Final Operational Statement, if the relevant statements show any Operational Deficit Difference, the Company will issue a payment notice to the Potential Purchaser requesting settlement of the relevant Operational Deficit Difference.

The Potential Purchaser must transfer the amount stated in the relevant payment notice to the settlement account to be specified by the Company within ten business days after the issuance of the payment notice.

If the Potential Purchaser fails to pay any amount referred to in the payment notice, the Potential Purchaser, as the defaulting party, must pay overdue interest. The interest rate for overdue interest is the prevailing Hong Kong Interbank Offered Rate plus one percent, calculated daily until the overdue amount and overdue interest are fully paid.

Earning distribution arrangement

: In addition to the reimbursement of all Relevant Revenue, Costs and Expenses by the Potential Purchaser as set out in the section headed "Subject Matter" above, if according to the Pre-Final Operational Statement and the Final Operational Statement, the total Relevant Income (including earnings, commissions, rebates and other remuneration) shall exceed the total Relevant Revenue, Costs and Expenses by any amount, the Company shall cause the Licensed Corporations to respectively distribute to the Potential Purchaser and/or its nominated person(s)/entity(ies), the relevant earnings.

The Company shall transfer any such amount to the settlement account to be specified by the Potential Purchaser within ten business days after the Pre-Final Operational Statement or the Final Operational Statement is accepted by the Potential Purchaser.

If the Company fails to pay or procure payment of any amount referred to in the Pre-Final Operational Statement or the Final Operational Statement, the Company, as the defaulting party, must pay overdue interest. The interest rate for overdue interest is the prevailing Hong Kong Interbank Offered Rate plus one percent, calculated daily until the overdue amount and overdue interest are fully paid.

Undertaking and indemnity from the Potential Individual Purchaser and the Potential Purchaser : The Potential Purchaser undertakes to the Company that it shall procure the Nominated Representatives to, among others, use their best efforts to discharge their respective duties, adhere to the internal rules and regulations of the Group and not to act in such a manner which will harm the interests of the Company and the Licensed Corporations.

The Potential Individual Purchaser and the Potential Purchaser jointly and severally undertake to indemnify the Company against all losses or liabilities arising from, including (a) the Potential Purchaser's non-compliance with the Business Cost Sharing Agreement, including any payment delays; (b) breaches by the Nominated Representatives of their employment terms with the Licensed Corporations, any rules and regulations, leading to claims, investigations, or financial losses against Party A and its senior personnel; and (c) any business projects engaged or referred by the Nominated Representatives that result in penalties, claims, or financial losses against the Company and its senior personnel.

Termination : The Business Cost Sharing Agreement shall terminate upon mutual agreement by all the Parties in writing at any time prior to the end of the Sharing Term.

The Company shall be entitled to unilaterally terminate the Business Cost Sharing Agreement if the Potential Purchaser breaches or fails to perform or comply with its obligations in accordance with the terms of the Business Cost Sharing Agreement.

II. BACKGROUND OF, REASON FOR AND BENEFIT OF ENTERING INTO THE BUSINESS COST SHARING AGREEMENT

Since the commencement of the Offer Period, the Potential Individual Purchaser, as an expression of commitment in facilitating the Potential Transactions, had, through the Potential Purchaser, nominated individual representatives to join and expand the business operations of the Licensed Corporations (i.e. SWS Capital and SWS Asset Management), as responsible officers, licensed representatives and other staff.

In order to establish a framework governing the sharing of costs and expenses incurred in respect of, and earnings generated from, the business operations of the Licensed Corporations, the Company, the Potential Purchaser and the Potential Individual Purchaser had entered into the Business Cost Sharing Agreement.

The Board believes that the Business Cost Sharing Agreement is a strategic initiative crucial for bringing in new business opportunities and improving the business operations of the Group. The integration of the Nominated Representatives is expected to provide fresh perspectives and innovative approaches, thereby enhancing the Group's market reach and operational agility. Furthermore, the Business Cost Sharing Agreement underscores trust and commitment between the Company, the Potential Purchaser and the Potential Individual Purchaser, fostering a collaborative environment. The Board is confident that such a partnership will pave the way for a stronger and more synergistic collaboration, ultimately benefiting the Company and the Shareholders as a whole.

III. INFORMATION OF THE PARTIES

The Potential Purchaser is a company incorporated in Hong Kong with limited liability which is licensed to carry on type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. The Potential Individual Purchaser is one of the ultimate beneficial owners of the Potential Purchaser. The Potential Individual Purchaser, the Potential Purchaser and its ultimate beneficial owner are all third parties independent to and not connected with the Company, its directors, chief executive, substantial shareholders, subsidiaries and/or their respective associates.

The Company is incorporated in Bermuda with limited liability. The principal activity of the Company is investment holding. The Group, through its subsidiaries, principally engages in brokerage and margin financing, corporate finance, asset management and proprietary trading.

IV. MONTHLY UPDATE

As of the date of this announcement, the discussions and negotiations between SSII and the Potential Individual Purchaser in respect of the Potential Transactions are on-going, and due diligence review and discussion on commercial terms in respect of the Potential Transactions are taking place. Save for the Business Cost Sharing Agreement which had been entered into between the Potential Individual Purchaser and the Company, being a subsidiary directly controlled by SSII, no formal or legally binding agreement has been entered into between SSII and the Potential Individual Purchaser in relation to the Potential Transactions.

In compliance with Rule 3.7 of the Takeovers Code, monthly update announcement(s) will be made until announcement of firm intention to make an offer under Rule 3.5 of the Takeovers Code or of a decision not to proceed with an offer is made. Further announcement(s) will be made by the Company as and when appropriate or required in accordance with the Listing Rules and the Takeovers Code (as the case may be).

WARNING: THERE IS NO ASSURANCE THAT THE POTENTIAL TRANSACTIONS WILL MATERIALISE OR EVENTUALLY BE CONSUMMATED AND THE RELEVANT DISCUSSIONS MAY OR MAY NOT LEAD TO A GENERAL OFFER UNDER RULE 26.1 OF THE TAKEOVERS CODE. SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY. PERSONS WHO ARE IN DOUBT AS TO THE ACTION THEY SHOULD TAKE SHOULD CONSULT THEIR STOCK BROKERS, BANK MANAGERS, SOLICITORS OR OTHER PROFESSIONAL ADVISERS.

V. DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meanings ascribed to them below:

“3.7 Announcement(s)”	The announcements of the Company dated 30 December 2022, 30 January 2023, 28 February 2023, 28 March 2023, 28 April 2023, 25 May 2023, 23 June 2023, 30 June 2023, 31 July 2023, 31 August 2023 and 22 September 2023 pursuant to Rule 3.7 of the Takeovers Code
“Board”	The board of directors of the Company
“Business Cost Sharing Agreement”	The business cost sharing agreement dated 25 October 2023 entered into among the Company, the Potential Individual Purchaser and the Potential Purchaser in relation to the framework governing sharing of costs and expenses incurred in respect of, and earnings generated from, the business operations of the Licensed Corporations
“Company”	Southwest Securities International Securities Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange under the stock code 0812
“Director(s)”	The director(s) of the Company
“Exclusivity Period”	Has the meaning given to it under the 3.7 Announcements
“Final Operational Statement”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC

“Licensed Corporation(s)”	For the purpose of this announcement and the Business Cost Sharing Agreement, SWS Capital and SWS Asset Management, being the indirect subsidiaries of the Company, which are principally engaged in the provision of corporate finance advisory services, and the provision of asset management services, distribution of unit trusts and mutual funds, respectively
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Monthly Operational Statement”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“Nominated Representative(s)”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“Offer Period”	Has the meaning ascribed to it under the Takeovers Code, which commenced on 30 December 2022 (being the date of the first 3.7 Announcement)
“Operational Deficit Difference”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“Post-Sharing Term”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“Potential Individual Purchaser”	Has the meaning given to it under the 3.7 Announcements
“Potential Purchaser”	Has the meaning given to it under the 3.7 Announcements
“Potential Transaction(s)”	(i) the potential sale and purchase of the 2,713,469,233 shares held by SSII (representing approximately 74.1% of the total issued shares of the Company and the entire shareholding held by SSII of the Company); and (ii) the perpetual securities in the aggregate principal amount of HK\$580,000,000 issued by the Company to SSII on 8 October 2019

“Pre-Final Operational Statement”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“Relevant Income”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“Relevant Revenue, Costs and Expenses”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“Share(s)”	Ordinary share(s) in the share capital of the Company
“Shareholder(s)”	Shareholder(s) of the Company
“Sharing Term”	Has the meaning ascribed to it under the section headed “I. Business Cost Sharing Agreement”
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SSII”	Southwest Securities International Investment Limited, a company incorporated in Hong Kong with limited liability, being the controlling Shareholder which holds 2,713,469,233 Shares, representing approximately 74.1% of the entire issued share capital of the Company as of the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SWS Asset Management”	Southwest Securities (HK) Asset Management Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of the Company which principally engages in the provision of asset management services, distribution of unit trusts and mutual funds and which is licensed to carry on type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO

“SWS Capital”

Southwest Securities (HK) Capital Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of the Company which principally engages in the provision of corporate finance advisory services and which is licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO

“Takeovers Code”

The Codes on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong

By Order of the Board

Southwest Securities International Securities Limited

Zhang Hongwei

Chairman

Hong Kong, 25 October 2023

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Hongwei (Chairman) and Mr. Huang Changsheng; and the independent non-executive directors of the Company are Mr. Meng Gaoyuan, Mr. Liang Jilin and Mr. Cao Ping.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.

* *For identification purpose only*