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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Industrial Securities International Financial Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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China Industrial Securities International Financial Group Limited

興證國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8407)

RENEWAL OF CONTINUING CONNECTED TRANSACTION WITH INDUSTRIAL SECURITIES CONSULTANCY SERVICE (SHENZHEN) COMPANY LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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



Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 19 to 20 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 36 of this circular.

A notice convening the EGM to be held at Huashan Room, Level 5, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 12 June 2018 at 3:00 p.m. is set out on pages 42 to 44 of this circular.

Whether or not you are able or intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned thereof should you so wish.

This circular together with the form of proxy will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of publication and on the Company's website at www.xyzq.com.hk

17 May 2018

CHARACTERISTICS OF THE GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CISI Holdings”	China Industrial Securities International Holdings Limited, a company incorporated on 20 July 2015 in the Cayman Islands with limited liability under the laws of the Cayman Islands, whose sole shareholder is Industrial Securities (Hong Kong) and a controlling shareholder of the Company
“Company”	China Industrial Securities International Financial Group Limited, a company incorporated on 21 July 2015 with limited liability under the laws of the Cayman Islands
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consultancy Services”	(i) provision of consultancy services on economic information, and (ii) assisting the Group in collecting and analysing information on macroeconomics, industry news and market information in the PRC
“controlling shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened at Huashan Room, Level 5, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 12 June 2018 at 3:00 p.m. for the purpose of considering, and if thought fit, approving the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto)
“GEM”	the GEM of the Stock Exchange

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM as amended, supplemented or otherwise modified from time to time
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board (which comprises Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo, all being independent non-executive Directors) established to advise the Independent Shareholders with regard to the terms of the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto)
“Independent Financial Adviser” or “GF Capital”	GF Capital (Hong Kong) Limited, a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activity and the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the terms of the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto)
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolutions at the EGM due to their material interests in the transactions contemplated under the Renewal Service Agreement (including the annual caps in relation thereto)
“independent third party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive or substantial shareholders of the Company, its subsidiaries or their respective associates

DEFINITIONS

“Industrial Securities”	興業證券股份有限公司 (Industrial Securities Co., Ltd.*), a company established under the laws of the PRC on 30 June 1994 with limited liability whose shares are listed on the Shanghai Stock Exchange (stock code: 601377) and a controlling shareholder of the Company
“Industrial Securities (Hong Kong)”	Industrial Securities (Hong Kong) Financial Holdings Limited (興證(香港)金融控股有限公司), a company incorporated under the laws of Hong Kong on 5 July 2011 with limited liability whose sole shareholder is Industrial Securities and a controlling shareholder of the Company
“Industrial Securities (Shenzhen)”	興證諮詢服務(深圳)有限公司(Industrial Securities Consultancy Service (Shenzhen) Company Limited*), a company established under the laws of the PRC on 25 November 2013 with limited liability and currently a subsidiary of Industrial Securities (Hong Kong)
“Latest Practicable Date”	14 May 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
“New Services”	(i) provision of services and supports to the Group’s clients in core regions in the PRC (non-regulated activities); (ii) brand establishment and promotion; and (iii) provision of cross-border information technology support
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	prospectus of the Company dated 30 September 2016
“Renewal Service Agreement”	the service agreement dated 3 April 2018 entered into between the Company and Industrial Securities (Shenzhen) in relation to the renewal of the transactions contemplated under the Service Agreement (as amended by the Supplemental Service Agreement) for a further term of three years from 1 January 2019 to 31 December 2021

DEFINITIONS

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

* *for identification purposes only*

LETTER FROM THE BOARD



China Industrial Securities International Financial Group Limited

興證國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8407)

Non-executive Directors:

Mr. Yang Huahui (*Chairman*)
Mr. Huang Yilin

Executive Directors:

Mr. Huang Jinguang (*Chief Executive Officer*)
Mr. Wang Xiang
Ms. Zeng Yanxia

Independent non-executive Directors:

Ms. Hong Ying
Mr. Tian Li
Mr. Qin Shuo

Registered Office:

PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Principal Place of Business

in Hong Kong:

32/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

17 May 2018

To the Shareholders,

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTION
WITH INDUSTRIAL SECURITIES CONSULTANCY SERVICE
(SHENZHEN) COMPANY LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

References are made to:

- (1) the Prospectus, containing among other things, the non-exempt connected transaction in relation to the Service Agreement with a term of three years from 1 January 2016 to 31 December 2018; and

LETTER FROM THE BOARD

- (2) the announcement of the Company dated 3 April 2018 in relation to, among other things, the renewal of the transactions contemplated under the Service Agreement (as amended by the Supplemental Service Agreement) for a further term of three years from 1 January 2019 to 31 December 2021 contemplated under the Renewal Service Agreement.

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

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

On 3 April 2018 (after trading hours), the Company and Industrial Securities (Shenzhen) entered into the Supplemental Service Agreement, pursuant to which, (i) in addition to the Consultancy Services, Industrial Securities (Shenzhen) will also provide the New Services to the Group; and (ii) the annual cap for the Consultancy Services or the Services (where applicable) that may be payable by the Company to Industrial Securities (Shenzhen) for the year ending 31 December 2018 was revised from HK\$12.1 million to HK\$36 million.

The primary purposes of this circular are to provide you with, among other things:

- (a) the particulars of the Renewal Service Agreement and the transactions contemplated thereunder (together with the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021);
- (b) the letter from the Independent Board Committee with their review on the Renewal Service Agreement and the transactions contemplated thereunder (together with the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021); and

LETTER FROM THE BOARD

- (c) the letter from the Independent Financial Adviser with their advice on the Renewal Service Agreement and the transactions contemplated thereunder (together with the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021) to the Independent Board Committee and the Independent Shareholders.

RENEWAL OF CONTINUING CONNECTED TRANSACTION

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

Principal terms

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

The Company is the only customer of Industrial Securities (Shenzhen), therefore all of the actual costs incurred by Industrial Securities (Shenzhen) represent the costs as stated above and are mainly comprised of its staff cost and office expenses. Industrial Securities (Shenzhen) operates a separate bank account with its parent company and the Company pays the service fee directly to the said bank account operated by Industrial Securities (Shenzhen).

Regarding the schedule of the payment of the service fee, Industrial Securities (Shenzhen) issues an invoice to the Company monthly for the services provided during the previous month with breakdown of its actual costs. After receipt of the invoice, the Company will settle the invoice according to its own policy, pursuant to which, such settlement has to be approved by the management of the Company.

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

LETTER FROM THE BOARD

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

- (a) it will not provide any Services to any independent third party unless it has first satisfied the needs of the Group for such Services;
- (b) if it cannot satisfy the need of the Group for the Services or if independent third parties can offer terms more favorable than those offered by it, the Group is entitled to procure the Services from independent third parties;
- (c) it is entitled to provide the Services to independent third parties provided that this will not affect its provision of the Services to the Group;
- (d) it will not, and will procure its subsidiaries (if any) not to, provide the Services to the Group on terms which are less favorable than those offered to independent third parties; and
- (e) the execution of the Renewal Service Agreement will not affect the Group's right to choose its counterparty for transactions or enter into transactions with third parties.

Historical transaction amounts

The annual caps for the provision of the Consultancy Services by Industrial Securities (Shenzhen) to the Company for the years ended 31 December 2016 and 2017 were approximately HK\$8.2 million and HK\$10.2 million, respectively and the revised annual cap for the year ending 31 December 2018 is HK\$36 million.

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

The actual service fee paid by the Company to Industrial Securities (Shenzhen) for the Services for the three months ended 31 March 2018 was approximately HK\$4.5 million.

LETTER FROM THE BOARD

Proposed annual caps and price determination

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

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

Staff costs

It is expected that there will be an inflation rate of approximately 10% in monthly salary level in the PRC, in particular the Shenzhen region year on year based on the actual inflation rate in monthly salary level in Shenzhen for the year 2016.

It is expected that for the years ending 31 December 2019, 2020 and 2021, the increase of salary costs (including the costs resulted from the new hires) will be approximately RMB21.9 million (equivalent to approximately HK\$27.1 million), RMB25.1 million (equivalent to approximately HK\$31.0 million) and RMB35.1 million (equivalent to approximately HK\$43.4 million), respectively.

The estimated increase in staff cost is mainly attributable to (a) the increase in the headcount of Industrial Securities (Shenzhen), especially the headcount for senior and more experienced staff; and (b) the increase in monthly salary level of staff.

LETTER FROM THE BOARD

(i) Increase in estimated headcount

As at 31 December 2017, there were 29 employees in Industrial Securities (Shenzhen). The Company expects that there will be 27, 28, 29 and 29 new hires for the years ending 31 December 2018, 2019, 2020 and 2021 respectively. The sharp expected increase in headcount of Industrial Securities (Shenzhen) is mainly to cope with the organic growth of the Group's demand in Consultancy Services for its brokerage services, loan and financing, as well as asset management business while additional manpower will be required for the New Services given that Industrial Securities (Shenzhen) will start providing (i) support to the Group's clients in core regions in the PRC for non-regulated activities; (ii) brand establishment and promotion in more regions in the PRC; and (iii) cross-border information technology support in the second half of year 2018.

(ii) Increase in monthly salary level of staff

The historical salary level in Industrial Securities (Shenzhen) of approximately RMB17,100 was relatively low. It is the internal decision and strategy of Industrial Securities (Shenzhen) to increase the average monthly salary to approximately RMB22,000 to RMB25,000 to retain and attract talents.

The Company expects that the average monthly salary per-capita of Industrial Securities (Shenzhen) will increase to RMB27,500, RMB30,250 and RMB33,275 for the years ending 31 December 2019, 2020 and 2021 respectively from the estimated average monthly salary of RMB25,000 for new hires in the year ending 31 December 2018, representing a year on year increase of 10.0% during each of the years ending 31 December 2019, 2020 and 2021, which also leads to the increase in related performance based bonus, social insurance and welfare allowance costs to increase.

Office expenses

The increase of office expenses (including the rental expenses, the management fee and utility expenses) will be approximately RMB1.1 million (equivalent to approximately HK\$1.4 million), RMB0.2 million (equivalent to approximately HK\$0.2 million) and RMB0.4 million (equivalent to approximately HK\$0.5 million), respectively for each of the years ending 31 December 2019, 2020 and 2021.

LETTER FROM THE BOARD

Currently, Industrial Securities (Shenzhen) does not have its own office premises but occupies the office of its parent company due to its relatively small scale. Given that the anticipated increase in its scale, Industrial Securities (Shenzhen) is currently identifying a suitable office premise for rent and will start paying its rental and management fee in 2018 upon setting up its own office. Therefore, there will be a significant increase in office expenses of approximately RMB1.1 million for the year ending 31 December 2019 because the estimated rental cost has not yet been fully reflected for the year ending 31 December 2018 as Industrial Securities (Shenzhen) is still identifying a suitable office premise. Further, the significant increase in office expenses for the years ending 31 December 2019, 2020 and 2021 is mainly attributable to the increase in rental and management fee, as well as the increase in utilities expenses and depreciation due to additional office furniture and equipment of the new office.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Industrial Securities (Shenzhen) has been appointed on an annual basis as the service provider of the subsidiaries of Industrial Securities (Hong Kong) (including the Group) for provision of the Consultancy Services. The major reason for such arrangement is to lower the staff and other operating costs for the Group as the staff costs are comparatively lower in the PRC than in Hong Kong and the operating costs may increase with the frequent travel to the PRC by the employees of the Group in Hong Kong for conducting research.

The Board considers it is in the interest of the Company and the Shareholders as a whole to appoint Industrial Securities (Shenzhen) for the provision of the Consultancy Services and the New Services due to the following reasons:

- (i) Industrial Securities (Shenzhen) has substantial experiences in providing Consultancy Services to the Group throughout the past few years. Further, the existing staff of Industrial Securities (Shenzhen) possesses relevant expertise and experience in providing the New Services and it has also been recruiting staff with relevant expertise in the New Services at market rate, so as to cater the increasing demand from the Group;
- (ii) Industrial Securities (Shenzhen) has been the business partner of the Group to provide the Consultancy Services on an annual basis. It has substantial experience in handling the needs of the Group and throughout the years, it has always provided the Consultancy Services to the Group in a timely and reliable manner. With such experiences, Industrial Securities (Shenzhen) knows the needs, expectation and culture of the Group well and the Group has built up its trust on the service quality of Industrial Securities (Shenzhen);

LETTER FROM THE BOARD

- (iii) Industrial Securities (Shenzhen) is the subsidiary of Industrial Securities, one of the largest securities firms in the PRC and whose shares are listed on the Shanghai Stock Exchange. The close co-operation between the Group and Industrial Securities (including Industrial Securities (Shenzhen)) would be beneficial to the Group's branding and reputation in the PRC and the establishment of the Group's business connection in the PRC financial and securities industry. Also, as a member of the Industrial Securities group and with its substantial knowledge in PRC financial and securities industry, the provision of the New Services by Industrial Securities (Shenzhen) will provide assurance and confidence to the Group's customers in the PRC; and
- (iv) As the provision of the New Services by Industrial Securities (Shenzhen) may involve sensitive information of the Group (including but not limited to client coverage and customer support), it would be difficult and/or impractical to outsource such New Services to third party service providers.

Accordingly, in addition to the Consultancy Services, the Company engaged Industrial Securities (Shenzhen) to provide the New Services to the Group pursuant to the terms and conditions of the Supplemental Service Agreement. Given that Industrial Securities (Shenzhen) can provide such diversified and tailor-made Services to the Group, the Board anticipates to continue to engage Industrial Securities (Shenzhen) for provision of the Services for a further term of three years from 1 January 2019 to 31 December 2021.

The Board has taken into account the following factors to determine the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021:

- (i) The scope of services under the Service Agreement (as amended by the Supplemental Service Agreement) for the year ending 31 December 2018 is way broader than the scope of services for the years ended 31 December 2016 and 2017. Industrial Securities (Shenzhen) shall require more employees with the relevant expertise to provide the New Services and in fact has already started recruiting the members with the relevant expertise. As a result, the estimated operational costs shall increase accordingly;
- (ii) In April 2018, Industrial Securities (Shenzhen) has conducted performance appraisal and shall adjust the salary of its employee to catch up with market level and to retain talents, thus increasing the estimated operational costs; and
- (iii) The relevant historical transaction amounts under the Service Agreement for the year ended 31 December 2017 and the three months ended 31 March 2018.

LETTER FROM THE BOARD

Also, for the fees to be charged by Industrial Securities (Shenzhen), the mark up of 6% merely represents the value-added tax of 6% on the revenue of Industrial Securities (Shenzhen) without any mark up for profit. The pricing of cost-plus 6% mark up for value-added tax offered by Industrial Securities (Shenzhen) to the Group is competitive as compared to other service providers which are profit-making in nature.

The Board considers that it is fair and reasonable to determine the proposed annual caps for the years ending 31 December 2019, 2020 and 2021 at a relatively early stage due to the following reasons:

- (i) as stated above, the pricing of cost-plus 6% mark up is competitive and given that the Group has the right to terminate the Renewal Service Agreement at any time and choose its counterparty for transactions or enter into transactions with third parties pursuant to the terms as set out therein, the Board considers it is beneficial to the Group to secure such service terms and conditions as soon as possible; and
- (ii) the Group is currently formulating its budget for the year ending 31 December 2019. As the Consultancy Services and New Services are closely related to the business needs and development of the Group in the PRC, the entering into the Renewal Service Agreement provides the relevant information for formulating the Group's budget, thus provides certainty to the business planning of the Group.

In view of the factors above, the Board believes that in order to meet the strategic positioning and goal to expand customer service (non-regulated activities) in the core regions in the PRC and strengthen the support of such client's services in such regions, it is anticipated that the timely execution of the Renewal Service Agreement can steadily and considerably contribute to the growth of revenue and profit of the Group.

Further, the Renewal Service Agreement has been negotiated on an arm's length basis and are on normal commercial terms and in ordinary and usual course of business of the Group, and the terms and conditions thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

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

INTERNAL CONTROL

Prior to entering into the Renewal Service Agreement, the Company has implemented the following measures to ensure the terms and conditions of the Renewal Services Agreement (including but not limited to the cost incurred by Industrial Securities (Shenzhen)) are fair and reasonable and not less favourable than those offered by independent third parties:

- (i) before entering into the Renewal Service Agreement, the relevant business department conducted research on the service fees of the independent third parties providing similar services in the market and considered the service fee under the Renewal Service Agreement to be not less favourable than those offered by the independent third parties;
- (ii) the relevant business department and the management reviewed the forecast provided by Industrial Securities (Shenzhen) regarding its costs for the years ending 31 December 2018, 2019, 2020 and 2021 and considered such forecast to be reasonable and practicable; and
- (iii) the Board (other than the Directors who have material interests and the independent non-executive Directors) has reviewed the Renewal Service Agreement and taken into account of the findings and observations of the relevant business department and the management.

LETTER FROM THE BOARD

The Group will implement the following measures to ensure that the aggregate transaction amounts under the Renewal Service Agreement will not exceed the annual caps of the respective years:

- (i) the finance department of the Company will prepare monthly management report to closely monitor the transactions under the Renewal Service Agreement to ensure that the aggregate transaction amounts will not exceed the relevant annual caps; if the relevant annual caps have nearly been fully utilised, the finance department will issue warnings to the relevant business department;
- (ii) the Company's external auditors will conduct annual review on the pricing and the annual caps of the transactions under the Renewal Service Agreement according to the Listing Rules; and
- (iii) the independent non-executive Directors will perform an annual review and confirm in the annual report of the Company that the transactions under the Renewal Service Agreement have been entered into the ordinary and usual course of business of the Group or normal commercial terms and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

GENERAL INFORMATION

Information of the Group

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

Information of Industrial Securities (Shenzhen)

Industrial Securities (Shenzhen) is mainly engaged in the provision of consultancy services to the subsidiaries of Industrial Securities (Hong Kong) (including the Group). Industrial Securities (Shenzhen) is the subsidiary of Industrial Securities (Hong Kong), and Industrial Securities (Hong Kong) is a wholly-owned subsidiary of Industrial Securities. Industrial Securities is one of the leading securities firms in the PRC and listed on the Shanghai Stock Exchange (stock code: 601377).

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Industrial Securities (Hong Kong) holds the entire issued share capital of CISI Holdings, which in turn directly holds 2,062,279,644 Shares, representing approximately 51.56% of the issued share capital of the Company. Therefore, Industrial Securities (Hong Kong) is a controlling shareholder of the Company. As Industrial Securities (Shenzhen) is a subsidiary of Industrial Securities (Hong Kong), Industrial Securities (Shenzhen) is a connected person of the Company. As such, the transactions contemplated under the Renewal Service Agreement constitute continuing connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

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

EXTRAORDINARY GENERAL MEETING AND PROXY ARRANGEMENT

The notice of EGM is set out on pages 42 to 44 of this circular. At the EGM, ordinary resolutions in respect of, among other things, the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto) will be proposed.

Pursuant to the GEM Listing Rules, any votes of Shareholders at a general meeting must be taken by poll. An announcement on poll vote results will be published by the Company after the EGM.

LETTER FROM THE BOARD

As at the Latest Practicable Date, CISI Holdings is the controlling shareholder of the Company and holds 2,062,279,644 Shares, representing approximately 51.56% of the issued share capital of the Company. Industrial Securities holds the entire share capital of Industrial Securities (Hong Kong), which in turn holds the entire issued share capital of CISI Holdings. Therefore, both Industrial Securities and Industrial Securities (Hong Kong) are deemed to be interested in the 2,062,279,644 Shares held by CISI Holdings. Each of CISI Holdings, Industrial Securities (Hong Kong) and Industrial Securities and their respective associates are considered to have material interests in the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto) and are therefore required to abstain from voting on the resolutions to be proposed at the EGM approving the entering into of the Renewal Service Agreement, the proposed annual caps for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 and the transactions contemplated thereunder. Save for the aforesaid and to the best knowledge, information and belief of the Company, no other Shareholder has a material interest in the Renewal Service Agreement and therefore no other Shareholder is required to abstain from voting on the proposed resolutions approving the Renewal Service Agreement, the proposed annual caps for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 and the transactions contemplated thereunder.

A form of proxy for use in connection with the EGM is enclosed with this circular. In order to be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 48 hours before the time appointed for holding the EGM or at any adjournment thereof. Completion and return of the form of proxy will not preclude any Shareholder from attending and voting in person at the EGM or at any adjournment should he/she/it so wish.

RECOMMENDATIONS

Your attention is drawn to:

- (a) the letter from the Independent Board Committee set out on pages 19 and 20 of this circular which contains its recommendation to the Independent Shareholders in relation to the Renewal Service Agreement and the transactions contemplated thereunder (together with the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021); and

LETTER FROM THE BOARD

- (b) the letter from Independent Financial Adviser set out on pages 21 to 36 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Renewal Service Agreement and the transactions contemplated thereunder (together with the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021).

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser) consider that the Renewal Service Agreement has been negotiated on an arm's length basis and are on normal commercial terms and in ordinary and usual course of business of the Group, and the terms and conditions thereunder (together with the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors recommend the Shareholders to vote in favour of all the ordinary resolutions to be proposed at the EGM.

MISCELLANEOUS

The translation into Chinese language of this circular is for reference only. In case of any inconsistency, the English version shall prevail.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



China Industrial Securities International Financial Group Limited

興證國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8407)

17 May 2018

**RENEWAL OF CONTINUING CONNECTED TRANSACTION
WITH INDUSTRIAL SECURITIES CONSULTANCY SERVICE
(SHENZHEN) COMPANY LIMITED**

To the Independent Shareholders

Dear Sir/Madam,

We refer to the circular dated 17 May 2018 (the “Circular”) issued by the Company to its Shareholders of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter will have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders whether the Renewal Service Agreement and the transactions contemplated thereunder (together with the annual caps for the three years ending 31 December 2019, 2020 and 2021) (collectively named as the “Proposed Transactions”) have been negotiated on an arm’s length basis and are on normal commercial terms and in the ordinary and usual course of business of the Group and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. GF Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 18 of the circular and the text of a letter of advice from the Independent Financial Adviser, as set out on pages 21 to 36 of the circular, both of which provide details of the Renewal Service Agreement and the transactions contemplated thereunder (together with the annual caps for the three years ending 31 December 2019, 2020 and 2021).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

As members of the Independent Board Committee, we have discussed with the management of the Company in relation to the Proposed Transactions, and the basis upon which the terms of such Proposed Transactions have been determined and the annual caps in relation thereto have been calculated. We have also taken into account the principal factors and reasons considered by GF Capital in forming its opinion in relation to the Proposed Transactions, and have discussed with GF Capital its letter of advice.

On the basis of the above, we consider, and agree with the view of GF Capital, that the terms of the Proposed Transactions are fair and reasonable, on normal commercial terms or on terms no less favourable than those available to or from independent third parties, and shall be entered into on a continuing and regular basis in the ordinary and usual course of business of the Group, and that they are in the best interest of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

Independent Board Committee

Ms. Hong Ying

Independent non-executive

Director

Mr. Tian Li

Independent non-executive

Director

Mr. Qin Shuo

Independent non-executive

Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser in connection with the Renewal Service Agreement (including the annual caps thereunder), which have been prepared for inclusion in this circular.



29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

17 May 2018

*To the Independent Board Committee and the Independent Shareholders of
China Industrial Securities International Financial Group Limited*

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTION WITH INDUSTRIAL SECURITIES CONSULTANCY SERVICE (SHENZHEN) COMPANY LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Renewal Service Agreement, including the continuing connected transactions contemplated thereunder (the “**Continuing Connected Transactions**”) and the annual caps for each of the three years ending 31 December 2019, 2020 and 2021 (the “**Annual Caps**”), particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular of the Company dated 17 May 2018 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Industrial Securities (Hong Kong) holds the entire issued share capital of CISI Holdings, which in turn directly holds 2,062,279,644 Shares, representing approximately 51.56% of the issued share capital of the Company. Therefore, Industrial Securities (Hong Kong) is a controlling shareholder of the Company. As Industrial Securities (Shenzhen) is a wholly-owned subsidiary of Industrial Securities (Hong Kong), Industrial Securities (Shenzhen) is a connected person of the Company under the GEM Listing Rules. Since one or more of the applicable percentage ratios (as defined in Rule 19.07 under the GEM Listing Rules) in respect of the largest annual cap under the Renewal Service Agreement exceed 5% and the consideration is more than HK\$10,000,000, the Continuing Connected Transactions contemplated under the Renewal Service Agreement (including the Annual Caps) constitute non-exempt continuing connected transactions of the Company pursuant to Chapter 20 of the GEM Listing Rules and are subject to the reporting, announcement and the Independent Shareholders' approval requirements.

OUR INDEPENDENCE

GF Securities (Hong Kong) Brokerage Limited ("**GF Securities HK**"), served as the joint book runner and joint lead manager of the Company during its global offering in September 2016. GF Securities HK is a member of the IFA Group (as defined in the GEM Listing Rules). Notwithstanding the above, as (i) GF Securities HK and its employees are not involved in the provision of the independent advice in respect of the Continuing Connected Transactions; (ii) the service provided by GF Securities HK to the Company during its global offering was not related to the Continuing Connected Transactions; and (iii) we have not served as a financial adviser to (a) the Company or its subsidiaries; (b) the parties involved in the Continuing Connected Transactions or their respective subsidiaries; and (c) the connected persons of the Company or the parties involved in the Continuing Connected Transactions within two years prior to the date of this letter, we consider ourselves to be independent to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions and there is no circumstance under Rule 17.96 of the GEM Listing Rules that could affect our independence.

Save as disclosed above, as at the Latest Practicable Date, we did not have any relationships or interests with the Group or any other parties that could reasonably be regarded as relevant to the independence of us. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the captioned transactions, and therefore we are considered to be eligible to give independent advice on the Continuing Connected Transactions (including the Annual Caps).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects as at the date of the Circular. We have also relied on our discussion with management of the Company regarding the Group and the respective terms of the Continuing Connected Transactions (including the Annual Caps), including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Industrial Securities (Shenzhen) or their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Continuing Connected Transactions (including the Annual Caps), we have taken the following principal factors and reasons into consideration:

1. Background information of the Group and Industrial Securities (Shenzhen)

(i) The Group

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below sets out the audited consolidated financial information of the Group for the two years ended 31 December 2016 and 2017 as extracted from the annual report of the Company for the year ended 31 December 2017:

The Group	For the year ended 31 December	
	2017	2016
	<i>HK\$</i>	<i>HK\$</i>
Revenue	927,724,226	507,300,113
Profit before taxation	178,085,006	133,376,449
Profit for the year	152,831,841	101,119,554
	As at 31 December	
	2017	2016
	<i>HK\$</i>	<i>HK\$</i>
Total assets	17,053,775,016	13,398,147,405
Total liabilities	<u>12,656,509,202</u>	<u>9,103,822,604</u>
Net assets	<u><u>4,397,265,814</u></u>	<u><u>4,294,324,801</u></u>

(ii) Industrial Securities (Shenzhen)

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Reasons for and benefits of the Continuing Connected Transactions

As disclosed in the Prospectus, the Company and Industrial Securities (Shenzhen) entered into the Service Agreement on 27 September 2016 pursuant to which Industrial Securities (Shenzhen) agreed to provide consultancy services to the Group, including the provision of consultancy services on economic information and assisting the Group in collecting and analysing information on macroeconomics, industry news and market information in the PRC (i.e. the Consultancy Services) for a term of three years from 1 January 2016 to 31 December 2018. The major reason for such arrangement is to lower the staff and other operating costs for the Group.

As stated in the Letter from the Board, Industrial Securities (Shenzhen) has substantial experience in handling the needs of the Group and throughout the years, Industrial Securities (Shenzhen) has always provided the Consultancy Services to the Group in a timely and reliable manner. Due to the Group's strategic positioning and goal to expand the clients' services (non-regulated activities) in the core regions in the PRC and strengthen the support of client's services in such regions, as well as the establishment and promotion of brand and the support on cross-border information technology (i.e. the New Services), Industrial Securities (Shenzhen) has invested more resources to support the Group's business needs and development and has hired more staff with relevant expertise. Accordingly, in addition to the Consultancy Services, the Company engaged Industrial Securities (Shenzhen) to provide the New Services to the Company pursuant to the terms and conditions of the Supplemental Service Agreement. Given that Industrial Securities (Shenzhen) can provide such diversified and tailor-made Services to the Group and the Service Agreement (as amended by the Supplemental Agreement) will expire on 31 December 2018, the Company has entered into the Renewal Service Agreement and anticipates to continue to engage Industrial Securities (Shenzhen) for provision of the Services for a further term of three years from 1 January 2019 to 31 December 2021.

The Directors (excluding Mr. Yang Huahui and Mr. Huang Yilin, being the non-executive Directors, and Mr. Huang Jinguang, being the executive Director, who are considered to have material interests in the Renewal Service Agreement and were required to abstain from voting on the Board resolutions in respect of the Renewal Service Agreement, details of which are set out in the Letter from the Board) are of the view that the terms of the Renewal Service Agreement have been negotiated on an arm's length basis and are on normal commercial terms and in the ordinary and usual course of business of the Group that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the management of the Company and understand that the Continuing Connected Transactions are expected to be of recurrent nature and will occur on a regular and continuing basis in the ordinary course of business of the Group. Industrial Securities (Shenzhen) has been serving the Group for years before its listing, and the Group is the only customer of Industrial Securities (Shenzhen). Having considered that certain kinds of services may be specifically tailor-made for the Group and may involve sensitive information (e.g. client coverage and customer support), it would be difficult and/or impractical for the Group to outsource certain kinds of the Services to third party service providers. With reference to the Prospectus, we understand that each of the subsidiaries of the Company and Industrial Securities (Shenzhen) were directly and wholly-owned by Industrial Securities (Hong Kong) prior to the reorganisation for the purpose of the listing of the Company. Industrial Securities (Shenzhen) was being excluded from the Group mainly due to the then limitations (i.e. Industrial Securities (Shenzhen) has been established for less than three years at the time of the listing application of the Company and the inclusion of such domestic assets would otherwise be subject to approval from the China Securities Regulatory Commission) imposed by the Circular of the State Council Concerning Further Strengthening the Administration of Share Issuance and Listing Overseas (《國務院關於進一步加強在境外發行股票和上市管理的通知》) issued by the State Council of the PRC. We have enquired into the plan of the Group on acquiring Industrial Securities (Shenzhen) and we were advised that no definite plan has been formulated yet since the Company is still performing researches and studies on business strategies and compliance issues in view of the current regulatory environment.

The New Services mainly include but not limited to customer support, client coverage, brand establishment and promotion, etc. We have discussed with and understand from the management that the existing staff of Industrial Securities (Shenzhen) possesses relevant experience and expertise in providing the New Services. Moreover, in view of the expanding business scale and geographical coverage, Industrial Securities (Shenzhen) is increasing its headcount, especially on more experienced and senior positions, to cope with the rising demand from the Group. Given the close communication and years of cooperation between the Group and Industrial Securities (Shenzhen), Industrial Securities (Shenzhen) knows well the needs of the Group and the Group would from time to time make suggestion and specify its needs to Industrial Securities (Shenzhen), as well as the requirement on staff and expertise. Since the entering into of the Supplemental Service Agreement, Industrial Securities (Shenzhen) has been providing the New Services to the satisfaction of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the long-term business relationship with Industrial Securities (Shenzhen), in particular, (i) its experience in provision of the Consultancy Services to the Group; (ii) the existing staff of Industrial Securities (Shenzhen) possesses relevant experience and expertise in providing the New Services and Industrial Securities (Shenzhen) has been providing the New Services to the satisfaction of the Group; (iii) Industrial Securities (Shenzhen) is also one of the subsidiaries of Industrial Securities for which both Industrial Securities (Shenzhen) and the Group will be able to leverage on the widely recognised brand of Industrial Securities in the PRC when providing customers support, brand establishment and promotion services under the New Services and enhance customer recognition of the Group; (iv) it would be difficult and/or impractical to outsource certain kinds of the Services to third party service providers due to the sensitivity of the information being involved, and (v) historically Industrial Securities (Shenzhen) has been serving the Group for years before the listing of the Company and was excluded from the Group mainly due to regulatory limitations, we are of the view that Industrial Securities (Shenzhen) is a suitable and capable business partner for the continuation of provision of the Services for the Group. The labour costs are comparatively lower in the PRC than in Hong Kong and the operating costs may increase significantly if the employees of the Group in Hong Kong are required to travel frequently to the PRC for performing research and collecting various information, including but not limited to site inspections and industry observation tours. Therefore, entering into the Renewal Service Agreement would also enable the Group to leverage the research and consulting capability of Industrial Securities (Shenzhen) to meet the increasing demand arising from its business operations in a cost effective and efficient way without creating substantial additional costs on its own. Having considered the principal business and operations of the Group and the reasons for and benefits of entering into the Continuing Connected Transactions above, we concur with the Directors' view that the entering into of the Renewal Service Agreement is in the interests of the Company and the Shareholders as a whole and the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Principal terms of the Renewal Service Agreement

- Date: 3 April 2018
- Parties: (1) the Company
(2) Industrial Securities (Shenzhen)
- Term: From 1 January 2019 to 31 December 2021
- Service fee: Cost plus a mark-up of 6%, representing the value-added tax of 6% on the revenue of Industrial Securities (Shenzhen)
- Services rendered: (1) The Consultancy Services
(2) The New Services
- Undertakings of Industrial Securities (Shenzhen): Industrial Securities (Shenzhen) agrees that:
- (1) it will not provide any Services to any independent third party unless it has first satisfied the needs of the Group for such Services;
 - (2) if it cannot satisfy the need of the Group for the Services or if independent third parties can offer terms more favourable than those offered by it, the Group is entitled to procure the Services from independent third parties;
 - (3) it is entitled to provide the Services to independent third parties provided that this will not affect its provision of the Services to the Group;
 - (4) it will not, and will procure its subsidiaries (if any) not to, provide the Services to the Group on terms which are less favourable than those offered to independent third parties; and
 - (5) the execution of the Renewal Service Agreement will not affect the Group's right to choose its counterparty for transactions or enter into transactions with third parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the Renewal Service Agreement and have discussed with the management of the Company about the major terms therein. In our discussions with the management and our review of the major terms of the Renewal Service Agreement as well as the Service Agreement, we noted that the major terms of the Renewal Service Agreement are similar to the terms of the Service Agreement (save for those amended by the Supplemental Service Agreement).

We noted that in determining the fees to be charged by Industrial Securities (Shenzhen) for providing the Services to the Group, the mark up of 6% merely represents the value-added tax of 6% on the revenue of Industrial Securities (Shenzhen) without any mark up for profit. Upon our enquiry, the management advised that the pricing mechanism of cost-plus 6% mark up for value-added tax allows Industrial Securities (Shenzhen) to offer a competitive pricing to the Group as compared to other service providers which are profit-making in nature. Moreover, given the years of cooperation and understanding of the Group's business, Industrial Securities (Shenzhen) is considered to be the most suitable and capable service provider of the Services. Such cost-based pricing mechanism would ensure that the pricing of the consultancy fees would be made reference to actual costs incurred which is considered to be a fair and reasonable basis and, in case capable and suitable service providers are available, shall be no less favourable than those offered by independent third parties. Nevertheless, the Group will have the right to procure the consultancy services from other service providers in case better terms and pricing are available. The management advised us that the Group will request Industrial Securities (Shenzhen) to provide breakdown and supporting documents of the fee components (e.g. staff cost and relevant overhead expenses) to examine whether the fee charged by the Industrial Securities (Shenzhen) follows such pricing mechanism. We have obtained the transaction records and reviewed the sample of supporting materials provided by Industrial Securities (Shenzhen) to the Company (e.g. breakdown of costs incurred and relevant invoices) for the transactions in 2017 and noticed that the pricing were in line with the above pricing policies.

Having considered the above, we concur with the Directors' view that the pricing terms of the transactions contemplated under the Renewal Service Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. The Annual Caps

The following table sets out the historical amount of fees paid by the Company to Industrial Securities (Shenzhen) for its Consultancy Services and the annual caps under the Service Agreement for the two years ended 31 December 2017:

	For the year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Annual caps	8,200	10,200
Historical transaction figure	4,826	10,199

We noted that the historical transaction amount of approximately HK\$4.83 million for the year ended 31 December 2016 was relatively low as compared to the annual cap of HK\$8.2 million. As discussed with the management of the Company, we understand that for the period from 1 January 2016 to 26 September 2016, the total costs incurred by Industrial Securities (Shenzhen) for provision of the Consultancy Services to the Group amounted to HK\$3,158,443 on the basis of actual costs incurred by Industrial Securities (Shenzhen), which was regarded as deemed capital contributed from Industrial Securities (Hong Kong) under the consolidated statements of changes in equity. The Directors consider that the Consultancy Services provided by Industrial Securities (Shenzhen) should be accounted for as operating expenses of the Group for the period from 1 January 2016 to 26 September 2016. Therefore, no remuneration has been paid by the Group to Industrial Securities (Shenzhen) and the historical transaction amount of approximately HK\$4.83 million represents the service fee paid to Industrial Securities (Shenzhen) during the period from 27 September 2016 to 31 December 2016.

The actual service fee paid by the Company to Industrial Securities (Shenzhen) for the Services for the three months ended 31 March 2018 was approximately HK\$4.5 million. We noted that the annual cap for the year ending 31 December 2018 has been revised from HK\$12.1 million to HK\$36.0 million pursuant to the Supplemental Service Agreement, which is determined taking into account mainly (i) the actual service fee paid to Industrial Securities (Shenzhen) for provision of the Consultancy Services for the years ended 31 December 2016 and 2017 of approximately HK\$4.8 million and HK\$10.2 million, respectively; (ii) the broader scope of services to be provided by Industrial Securities (Shenzhen) under the Supplemental Service Agreement as compared to the one for the years ended 31 December 2016 and 2017; and (iii) the estimated increase of and the forecast of the operation costs to be incurred by Industrial Securities (Shenzhen) for the year ending 31 December 2018 resulting from the anticipated increases of human resources costs and office expenses.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table sets out the Annual Caps proposed under the Renewal Service Agreement for the three years ending 31 December 2021:

	For the year ending 31 December		
	2019	2020	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Annual Caps	68	105	153

When determining the reasonableness of the Annual Caps, we understand from the Company that the Annual Caps are determined mainly after taking into consideration (i) the increase of estimated staff cost of Industrial Securities (Shenzhen); and (ii) the increase in office expenses (including rental expenses, management fee and utility expenses) due to the anticipated increase in the Group's demand of the Services provided by Industrial Securities (Shenzhen).

For our due diligence purpose, we enquired into the management and obtained a calculation of the Annual Caps (the "**Calculation**"). Upon our enquiry, the management of the Company advised us that the principal assumptions adopted in the Calculation are determined based on the understanding with Industrial Securities (Shenzhen) taking into account the expected expansion in terms of manpower to cope with the business development plan and strategies of the Group. Based on the estimated scope and amount of work, it is expected that for each of the years ending 31 December 2019, 2020 and 2021, the increase in staff costs of Industrial Securities (Shenzhen) will be approximately RMB21.9 million, RMB25.1 million and RMB35.1 million, respectively, and the increase in office expenses will be approximately RMB1.1 million, RMB0.2 million and RMB0.4 million, respectively for each of the years ending 31 December 2019, 2020 and 2021.

(i) Staff cost

We have reviewed and noted from the Calculation that the estimated increase in staff cost is mainly attributable to (a) the increase in the headcount of Industrial Securities (Shenzhen), especially the headcount for senior and more experienced staff; (b) the increase in monthly salary level of staff; and (c) the increase in performance bonus and social welfare expenses as a result of the increase in headcount and salary level.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Increase in estimated headcount

As at 31 December 2017, there were 29 employees in Industrial Securities (Shenzhen). The Company expects that there will be 27, 28, 29 and 29 new hires for the years ending 31 December 2018, 2019, 2020 and 2021 respectively. We have discussed with the management of the Company and understand that the sharp expected increase in headcount of Industrial Securities (Shenzhen) is mainly to cope with the organic growth of the Group's demand in Consultancy Services for its brokerage services, loan and financing, as well as asset management business while additional manpower will be required for the New Services given that Industrial Securities (Shenzhen) will start providing (i) support to the Group's clients in core regions in the PRC for non-regulated activities; (ii) brand establishment and promotion in more regions in the PRC; and (iii) cross-border information technology support in the second half of year 2018. With reference to the annual report of the Company for the year ended 31 December 2017, the Group recorded a substantial growth in recent years. The revenue of the Group increased from approximately HK\$120.0 million for the year ended 31 December 2014 to approximately HK\$927.7 million for the year ended 31 December 2017, representing a compound annual growth rate ("CAGR") of approximately 97.7%, while the profit of the year increased from approximately HK\$18.8 million for the year ended 31 December 2014 to approximately HK\$152.8 million for the year ended 31 December 2017, representing a CAGR of approximately 101.2%. It was also stated that the Group will further accelerate cross-border business integration, enhance diversity of income mix and create diverse income resources. The Group will also continue to consolidate and promote the securities and futures brokerage business, strive to explore and expand the client base to provide customised and comprehensive services. Having considered that the Group's demand on the Services correlates with its business scale and the significant growth of the Group's business in recent years, we consider the estimated growth in headcount of Industrial Securities (Shenzhen) to be justifiable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Increase in estimated average monthly salary per-capita

We noted in the Calculation that there is substantial increase in average monthly salary to approximately RMB22,000 – RMB25,000 for the year ending 31 December 2018 as compared to the historical average of approximately RMB17,100 for December 2017. Upon our enquiry, we were advised that the historical salary level in Industrial Securities (Shenzhen) were relatively low and by adjusting the monthly salary to the aforementioned level, it is the internal decision and strategy of Industrial Securities (Shenzhen) to retain and attract talents. The estimated monthly salary level is set with reference to the general monthly salary level of being approximately RMB25,000 for assistant manager or manager in mid-to-large scale financial institutions in the PRC. Based on our research and according to the “Kelly Services Greater China Salary Guide 2017” published in April 2017 on its website by Kelly Services, Inc., a Fortune 500 company and a global workforce solution provider, we note that the monthly salary of a research associate in China ranged from approximately RMB20,800 to RMB33,300 whereby the estimated monthly salary adopted in the Calculation fell within such range.

The Company expects that the average monthly salary per-capita of Industrial Securities (Shenzhen) will increase to RMB27,500, RMB30,250 and RMB33,275 for the years ending 31 December 2019, 2020 and 2021 respectively from the estimated average monthly salary of RMB25,000 for new hires in the year ending 31 December 2018, representing a year on year increase of 10.0% during each of the years ending 31 December 2019, 2020 and 2021, which also leads to the increase in related performance based bonus, social insurance and welfare allowance costs to increase.

The table below sets out the average yearly salary and respective year on year increase in Shenzhen during 2012-2016:

RMB	2012	2013	2014	2015	2016
Average Yearly Salary	59,010	62,619	72,651	81,034	89,757
Year on year increase	NA	6.1%	16.0%	11.5%	10.8%

(Source: Shenzhen Statistical Yearbook 2017)

With reference to the data extracted from “Shenzhen Statistical Yearbook 2017” published on its website by Shenzhen Statistics Bureau on 19 December 2017, the average yearly salary in Shenzhen has increased from RMB59,010 in 2012 to RMB89,757 in 2016, representing a CAGR of 11.0%. The estimated increase in salary level in the Calculation is comparable to the historical increase in average salary level in Shenzhen.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Performance bonus, social welfare expenses

We noted that the ratio of performance bonus to salary cost was approximately 38% for the year ended 31 December 2017 while such ratio increased to 80% and 50% for existing and new hires respectively for the years ending 31 December 2018, 2019, 2020 and 2021. As discussed with the management of the Company, we understand that the ratio for year 2017 was particularly low since all the staff were employed for less than a year and the majority of them joined Industrial Securities (Shenzhen) in the second half of the year. The ratio of 80% is set with reference to the historical practice of setting the performance bonus being approximately 8-12 times of the monthly salary while that for the new hires is lower given that their employment is less than a full year. Social welfare expense is estimated to be increased in proportion to the increase in headcount and salary level.

(ii) Office expenses

The office expenses are estimated to be increased to approximately RMB2.7 million for the year ending 31 December 2018 from RMB49,667 for the year ended 31 December 2017. The increase in office expenses will be approximately RMB1.1 million, RMB0.2 million and RMB0.4 million, respectively for each of the years ending 31 December 2019, 2020 and 2021. We have reviewed and noted from the Calculation that the estimated increase in office expenses is mainly attributable to the increase in rental and management fee, as well as the increase in utilities expenses and depreciation due to additional office furniture and equipment of the new office.

We have discussed with Company and understand that currently Industrial Securities (Shenzhen) does not have its own office premises but occupies the office of its parent company due to its relatively small scale. As a result, the office expenses incurred by Industrial Securities (Shenzhen) for the two years ended 31 December 2016 and 2017 were not significant. However, given the anticipated increase in its scale, Industrial Securities (Shenzhen) will start paying its rental and management fee in 2018 upon setting up its own office. As advised by the management, Industrial Securities (Shenzhen) is still in the process of finding suitable office for rent. We have obtained and reviewed a list of office space for rent shortlisted by Industrial Securities (Shenzhen) and noted that the estimated rental and management fee in the Calculation is comparable to the current rent level asked by the landlords. The significant increase in office expenses of approximately RMB1.1 million for the year ending 31 December 2019 is mainly due to the reason that estimated rental cost has not yet been fully reflected for the year ending 31 December 2018 as Industrial Securities (Shenzhen) is still identifying suitable office premise.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account of the above and considering that (i) the Annual Caps merely represent the maximum costs which may be incurred by Industrial Securities (Shenzhen) and are determined based on the understanding between the Group and Industrial Securities (Shenzhen); and (ii) the fee payable by the Group would be based on the actual costs incurred by Industrial Securities (Shenzhen) on a cost-plus basis, we are of the view that the proposed Annual Caps for the three years ending 31 December 2021 under the Renewal Service Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

5. Internal control measures to ensure compliance with the GEM Listing Rules

Pursuant to Rules 20.53 to 20.57 of the GEM Listing Rules, the independent non-executive Directors are required to review the Group's continuing connected transactions annually and confirm in the Company's annual report that they have been (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In compliance with the GEM Listing Rules, the Company will engage auditors to report on the Group's continuing connected transactions for each of the years ending 31 December 2019, 2020 and 2021.

We have obtained and reviewed the internal control policies adopted by the Group on the management of connected transactions and understand that the Company has established a systematic management of internal control steps including (i) the recognition of connected persons and connected transactions; (ii) the approval flow of the continuing connected transactions; (iii) the monitoring flow of approved continuing connected transactions; and (iv) the annual review of the continuing connected transactions. We also noted that the internal control policies properly delineates the responsibilities in the course of managing the Group's continuing connected transactions for which the finance department, the company secretary and the Board share responsibilities in governing the continuing connected transactions. Besides, it was stated in the annual reports of the Company for the two years ended 31 December 2017 that the auditors of the Company has issued an unqualified letter containing their conclusions in respect of the continuing connected transactions set out above in accordance with Rule 20.54 of the GEM Listing Rules.

In light of the above internal control measures of the Group and the requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms and the Annual Caps not being exceeded, we consider that there exist appropriate measures to monitor the conduct of the Continuing Connected Transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into account the above principal reasons and factors, we consider that the terms of the Renewal Service Agreement (including the Annual Caps thereunder) are fair and reasonable so far as the Independent Shareholders are concerned and that the transactions contemplated under the Renewal Service Agreement (including the Annual Caps thereunder) are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to, and also recommend the Independent Shareholders to, vote in favour of the relevant resolution to approve the Renewal Service Agreement (including the Annual Caps thereunder).

Yours faithfully,
For and on behalf of
GF Capital (Hong Kong) Limited
Danny Wan
Managing Director

Note: Mr. Danny Wan is a licenced person and the responsible officers of GF Capital (Hong Kong) Limited registered with the Securities and Futures Commission of Hong Kong to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 22 years of experience in the corporate finance industry, and has participated in the provision of independent financial advisory services for various connected transactions or continuing connected transactions involving companies listed in Hong Kong.

RESPONSIBILITY STATEMENT

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company (the "Chief Executives") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long position in ordinary shares of HK\$0.1 each of the Company

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage
Huang Yilin	Beneficiary of a trust	2,264,384	0.06%
Huang Jinguang	Beneficiary of a trust	9,263,389	0.23%
Wang Xiang	Beneficiary of a trust	8,131,197	0.20%
Zeng Yanxia	Beneficiary of a trust	7,204,858	0.18%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or Chief Executives had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

So far as the Directors and the Chief Executives are aware, as at the Latest Practicable Date, the following persons/corporations (other than a Director or the Chief Executives) had interests or short positions in the Shares and the underlying Shares, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature	No. of Shares held	Approximate percentage of Shareholding
CISI Holdings	Beneficial owner	2,062,279,644	51.56%
Industrial Securities (Hong Kong) (Note 1)	Interest of controlled corporation	2,062,279,644	51.56%
Industrial Securities (Note 2)	Interest of controlled corporation	2,062,279,644	51.56%
Harvest Capital Management Co., Ltd. (Note 3)	Investment manager	293,232,000	7.33%
Harvest Fund Management Co., Ltd. (Note 3)	Interest of controlled corporation	293,232,000	7.33%
China Credit Trust Co., Ltd. (Note 3)	Interest of controlled corporation	293,232,000	7.33%
Intelligence Creation International Limited (Note 4)	Settlor of a trust	287,988,473	7.20%
Equity Trustee Limited (Note 5)	Trustee	287,988,473	7.20%
Intelligence Creation Value Limited (Note 6)	Beneficial owner	287,988,473	7.20%
Hao Kang Financial Holdings (Group) Limited	Beneficial owner	205,853,089	5.15%
Apex Trade Holdings Limited	Interest of controlled corporation	205,853,089	5.15%
Chen Jiaquan (Note 7)	Interest of controlled corporation	205,853,089	5.15%
Yang Zhiying (Note 8)	Interest of spouse	205,853,089	5.15%

Notes:

1. Industrial Securities (Hong Kong) holds the entire issued share capital of CISI Holdings. Therefore, Industrial Securities (Hong Kong) is deemed or taken to be interested in all the Shares held by CISI Holdings for the purposes of the SFO.
2. Industrial Securities holds the entire issued share capital of Industrial Securities (Hong Kong). Therefore, Industrial Securities is deemed or taken to be interested in all the Shares held by Industrial Securities (Hong Kong) for the purposes of the SFO.
3. China Credit Trust Co., Ltd holds 40% of the entire issued share capital of Harvest Fund Management Co., Ltd., and Harvest Fund Management Co., Ltd. holds 75% of the entire issued share capital of Harvest Capital Management Co., Ltd. Therefore, China Credit Trust Co., Ltd and Harvest Fund Management Co., Ltd. are deemed or taken to be interested in all the Shares held by Harvest Capital Management Co., Ltd for the purposes of the SFO.
4. Intelligence Creation International Limited is the settlor of Intelligence Creation Trust.
5. Equity Trustee Limited holds the entire issued share capital of Intelligence Creation Value Limited as the trustee of the Intelligence Creation Trust.
6. Intelligence Creation Value Limited holds the Shares issued and allotted pursuant to the Employee Share Participation which is the trust assets of the Intelligence Creation Trust. For further details of the Intelligence Creation Trust, please refer to the paragraph headed “History, Reorganisation and Group Structure – Employee Share Participation Scheme” in the prospectus of the Company dated 30 September 2016.
7. Chen Jiaquan holds 70% of the total issued share capital of Apex Trade Holdings Limited and is the sole director of Hao Kang Financial Holdings (Group) Limited and therefore is deemed or taken to be interested in all the Shares held by Apex Trade Holdings Limited and Hao Kang Financial Holdings (Group) Limited for the purpose of the SFO.
8. Yang Zhiying is the spouse of Chen Jiaquan. Yang Zhiying is deemed or taken to be interested in all the Shares in which Chen Jiaquan is interested for the purposes of SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the substantial or significant shareholders of the Company or other persons, other than the Directors and chief executives of the Company whose interests are set out in the section headed “Directors’ and chief executives’ interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations” above, had any interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which would not expire or was not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Group were made up.

LITIGATION AND CLAIMS

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

COMPETING INTERESTS AND OTHER INTERESTS

As at the Latest Practicable Date, save as disclosed herein, so far as the Directors were aware,

- (i) each of the controlling shareholders of the Company, the Directors, the substantial shareholders of the Company and their respective close associates do not have any interest in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules;
- (ii) none of the Directors or their associates was materially interested in any contract or arrangement entered into by the Group which was subsisting at the Latest Practicable Date and was significant and in relation to the business of the Group; and
- (iii) none of the Directors and the Independent Financial Adviser had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, the date to which the latest published audited accounts of the Group was made up.

QUALIFICATION AND CONSENT OF EXPERT

Name	Qualification
GF Capital	a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activity

As at the Latest Practicable Date, GF Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its statements, letter, report and opinion (as the case may be) as set out in this circular and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, GF Capital (i) did not have any shareholding directly or indirectly in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) did not have any direct or indirect interest in any assets which have been, since 31 December 2017, the date of the latest published audited accounts of the Group, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The letter of the Independent Financial Adviser dated 17 May 2018 as set out in pages 21 to 36 of this circular is given as of the date of this circular for incorporation herein.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any business day at the principal place of business of the Company in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong, from the date of this circular up to and including the date of the EGM:

- (i) the Renewal Service Agreement;
- (ii) the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular;
- (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” of this circular; and
- (iv) the letter of consent from the expert referred to under the section headed “Qualification and Consent of Expert” in this appendix.

NOTICE OF EGM



China Industrial Securities International Financial Group Limited

興證國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8407)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of China Industrial Securities International Financial Group Limited (the “Company”) will be held at Huashan Room, Level 5, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 12 June 2018 at 3:00 p.m. for the following purposes:

ORDINARY RESOLUTIONS

To consider and, if thought fit, pass (with or without modification) the following resolutions as ordinary resolutions:

“THAT:

- (A) the Renewal Service Agreement (as defined in the Circular) and the transactions contemplated thereunder (including the annual caps for the three years ending 31 December 2019, 2020 and 2021 being HK\$68 million, HK\$105 million and HK\$153 million, respectively) and the implementation thereof, be and are hereby approved, confirmed and ratified; and
- (B) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, necessary to, ancillary to or in connection with the matters contemplated under the Renewal Service Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

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

Hong Kong, 17 May 2018

NOTICE OF EGM

Principal Place of Business in Hong Kong:

32/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

Registered office:

PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Notes:

1. Any shareholder of the Company (the "Shareholder") entitled to attend and vote at the extraordinary general meeting (the "EGM") convened by this Notice or its any adjourned meeting (as the case may be) is entitled to appoint one (or, if he/she/it holds two or more Shares, more than one) proxy to attend and, on a poll, vote on his/her/its behalf subject to the provisions of the Articles of Association of the Company. A proxy need not be a Shareholder but must be present in person at the EGM to represent the Shareholder. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use in connection with the EGM is enclosed. If you are not able to attend and vote at the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a Shareholder from attending in person and voting at the EGM or its any adjournment should he/she/it so wish.
3. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time appointed for holding the EGM or its adjourned meeting. Completion and return of a form of proxy will not preclude a Shareholder from attending in person and voting at the EGM or its any adjournment should he/she/it so wish.
4. Where there are joint holders of any Share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such Share as if he/she/it was solely entitled thereto; but should more than one of such joint holders be present at the EGM in person or by proxy, that one of the said joint holders so present whose name stands first on the register of members of the Company in respect of such Share(s) shall alone be entitled to vote in respect thereof.
5. For determining the entitlement to attend and vote at the EGM, the transfer books and register of members of the Company will be closed from Thursday, 7 June 2018 to Tuesday, 12 June 2018, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the EGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 6 June 2018.

NOTICE OF EGM

6. If typhoon signal no. 8 or above, or a “black” rainstorm warning is hoisted on the date of the EGM, the meeting will be postponed. The Company will post an announcement on the GEM website at www.hkgem.com and the Company’s website at www.xyzq.com.hk to notify Shareholders of the date, time and place of the rescheduled meeting.

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