
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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

If you have sold or transferred all your shares in Shenwan Hongyuan Group Co., Ltd., you should at once hand this circular, together with the enclosed proxy form, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



申萬宏源集團股份有限公司
SHENWAN HONGYUAN GROUP CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6806)

**CONTINUING CONNECTED TRANSACTIONS —
RENEWAL OF THE SECURITIES AND FINANCIAL PRODUCTS,
TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT
AND
NOTICE OF THE 2021 SECOND EXTRAORDINARY GENERAL MEETING**

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

 **SOMERLEY CAPITAL LIMITED**

The 2021 second extraordinary general meeting of Shenwan Hongyuan Group Co., Ltd. will be held at 2:30 p.m. on Thursday, December 30, 2021 at the Company's conference room, No. 19, Taipingqiao Street, Xicheng District, Beijing, the PRC. A notice of the EGM is set out on pages 45 to 46 of this circular. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders, is set out on page 22 of this circular. A letter from Somerley, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 23 to 39 of this circular.

Whether or not you are able to attend the EGM, you are advised to read the notice of the EGM carefully and to complete the proxy form dispatched on Friday, December 10, 2021 in accordance with the instructions printed thereon and return it as soon as possible. H Shareholders are required to return the proxy form to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, by hand or by post no later than 24 hours before the time appointed for convening the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof in person if you so wish.

December 10, 2021

CONTENTS

| | <i>Page</i> |
|--|-------------|
| Definitions | 1 |
| Letter from the Board | 4 |
| Letter from the Independent Board Committee | 22 |
| Letter from Somerley | 23 |
| Appendix — General Information | 40 |
| Notice of the 2021 Second Extraordinary General Meeting | 45 |

DEFINITIONS

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

| | |
|----------------------------|---|
| “A Share(s)” | domestic Shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB and are listed for trading on the Shenzhen Stock Exchange (Stock Code: 000166) |
| “A Shareholder(s)” | holder(s) of A Share(s) |
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Board” | the board of directors of the Company |
| “Central Huijin” | Central Huijin Investment Ltd. (中央匯金投資有限責任公司), a company with limited liability incorporated in the PRC on December 16, 2003 and ultimately owned by the PRC government, which is the controlling shareholder of the Company |
| “Company” | Shenwan Hongyuan Group Co., Ltd. (申萬宏源集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose H Shares and A Shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, respectively |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “CSRC” | China Securities Regulatory Commission |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the 2021 second extraordinary general meeting of the Company to be held at 2:30 p.m. on Thursday, December 30, 2021 at the Company’s conference room, No. 19, Taipingqiao Street, Xicheng District, Beijing, the PRC |
| “Framework Agreement” | the Securities and Financial Products, Transactions and Services Framework Agreement entered into between the Company and JIC on March 29, 2019 |
| “Group” | the Company and its subsidiaries |
| “HKD” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “H Share(s)” | overseas listed foreign Shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for in HKD and are listed for trading on the Hong Kong Stock Exchange (Stock Code: 6806) |

DEFINITIONS

| | |
|--|--|
| “H Shareholder(s)” | holder(s) of H Share(s) |
| “Independent Board Committee” | the independent board committee comprising all independent non-executive Directors |
| “Independent Financial Adviser” or “Somerley” | Somerley Capital Limited, a corporation licensed by the Securities and Futures Commission to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Framework Agreement and the transactions contemplated thereunder and the proposed annual caps for the three years ending December 31, 2024 |
| “Independent Shareholder(s)” | Shareholders other than JIC and its associates |
| “Independent Third Party(ies)” | has the meaning ascribed thereto under the Listing Rules |
| “JIC” | China Jianyin Investment Ltd. (中國建銀投資有限責任公司), a company with limited liability incorporated in the PRC, which is a Substantial Shareholder of the Company |
| “Latest Practicable Date” | December 7, 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “New Framework Agreement” | the Securities and Financial Products, Transactions and Services Framework Agreement entered into between the Company and JIC on December 6, 2021 |
| “PRC” | the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan of the PRC |
| “Prospectus” | the prospectus of H Shares of the Company dated April 12, 2019 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “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) in the share capital of the Company, with a nominal value of RMB1.00 each, including A Share(s) and H Share(s) |

DEFINITIONS

| | |
|------------------------------|--|
| “Shareholder(s)” | shareholder(s) of the Company, including A Shareholders and H Shareholders |
| “Substantial Shareholder(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Supervisor(s)” | supervisor(s) of the Company |
| “Wind Information” | Wind Information Co., Ltd. (萬得資訊技術股份有限公司), a service provider of financial data, information and software in the PRC |
| “%” | per cent |

Unless otherwise specified, the financial data involved in this circular are under the Accounting Standards for Enterprises of China.

In this circular, there may be individual data as the sum of relevant data is different from the aggregate amount of the relevant data, which is caused by the rounding in calculation.

LETTER FROM THE BOARD



申萬宏源集團股份有限公司
SHENWAN HONGYUAN GROUP CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6806)

Executive Directors:

Mr. Chu Xiaoming (Chairman)
Mr. Huang Hao

Non-executive Directors:

Ms. Ge Rongrong
Mr. Ren Xiaotao
Mr. Zhang Yigang
Mr. Zhu Zhilong
Ms. Zhang Ying

Independent Non-executive Directors:

Ms. Yeung Siuman Shirley
Mr. Wu Changqi
Mr. Chen Hanwen
Mr. Zhao Lei

Registered Office:

Room 2001, 20/F,
Dacheng International Building
358 South Beijing Road
Urumqi High-tech Zone
Xinjiang, PRC

Principal Place of Business in the PRC:

20/F, Dacheng International Building
358 South Beijing Road
Urumqi High-tech Zone
Xinjiang, PRC

No. 19, Taipingqiao Street
Xicheng District
Beijing, PRC

Principal Place of Business in Hong Kong:

40/F, Dah Sing Financial Centre
248 Queen's Road East
Wanchai, Hong Kong

December 10, 2021

To the H Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS —
RENEWAL OF THE SECURITIES AND FINANCIAL PRODUCTS,
TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

The purpose of this circular is to give you notice of the EGM and to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for, against or abstain from voting on the resolution to be proposed for consideration at the EGM.

LETTER FROM THE BOARD

An ordinary resolution will be proposed at the EGM to approve the renewal of the Framework Agreement and the transactions contemplated thereunder and the proposed annual caps for the three years ending December 31, 2024.

1. CONTINUING CONNECTED TRANSACTIONS — RENEWAL OF THE SECURITIES AND FINANCIAL PRODUCTS, TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT

An ordinary resolution will be proposed at the EGM to approve the renewal of the Framework Agreement and the transactions contemplated thereunder and the proposed annual caps for the three years ending December 31, 2024.

Reference is made to the announcement of the Company dated December 6, 2021 in relation to, among other things, the renewal of the Framework Agreement and the transactions contemplated thereunder and the proposed annual caps for the three years ending December 31, 2024.

I. BACKGROUND

Reference is made to the Prospectus in relation to, among others, the Framework Agreement entered into between the Company and JIC on March 29, 2019 and the annual caps set for 2019, 2020 and 2021. References are made to the announcement dated March 27, 2020 and the circular dated June 3, 2020 of the Company, in relation to, among other things, proposed amendments to the annual caps for 2020 and 2021 under the Framework Agreement. Pursuant to the Framework Agreement, the Group and JIC and/or its associates shall provide securities and financial products and transactions to each other in their respective ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates and the Group shall provide securities and financial services to JIC and/or its associates.

As the Framework Agreement will expire on December 31, 2021, the Company has entered into the New Framework Agreement with JIC on December 6, 2021 for a term of three years effective from January 1, 2022 and expiring on December 31, 2024 upon approval at the EGM.

II. NEW FRAMEWORK AGREEMENT

1. *Date*

December 6, 2021

2. *Parties*

- (1) the Company; and
- (2) JIC

LETTER FROM THE BOARD

3. *Term*

From January 1, 2022 to December 31, 2024

4. *Main Contents of the Continuing Connected Transactions under the New Framework Agreement*

A. *Securities and Financial Products and Transactions*

According to the New Framework Agreement, the securities and financial products and transactions between the Group and JIC and/or its associates include (but are not limited to) the followings (collectively the “**Securities and Financial Products and Transactions**”):

- equity-related products, including but not limited to, equity interest, funds, trust, asset management schemes, exchangeable bonds, convertible bonds and structured products;
- fixed-income products, including but not limited to, funds, trust, bonds, debt, and structured products with fixed income characteristics;
- hybrid products, including but not limited to, funds, trust, asset management schemes and structured products;
- financing transactions among financial institutions with or without guarantees; and
- other related securities and financial products and derivative products.

B. *Securities and Financial Services*

According to the New Framework Agreement, JIC agreed to purchase and the Company agreed to provide securities and financial services to JIC and/or its associates in its ordinary course of business based on normal commercial terms and market practices at prevailing market prices. The securities and financial services provided to JIC and/or its associates include (but are not limited to) the following (collectively the “**Securities and Financial Services**”):

- financial products agency sale services. The Group receives service fees and/or other fees for such services;
- leasing of trading units services. The Group leases its trading units to institutional clients and receives trading commission and/or other fees for such services;
- brokerage services including securities brokerage and related financial products brokerage services. The Group receives brokerage commissions for such services;
- investment banking services, including but not limited to, underwriting and sponsorship services for stock, equity interests, bonds and other products, and financial advisory services for other general corporate restructuring, mergers and acquisition. The Group receives underwriting commissions, sponsor fees, financial advisory fees and/or other fees for such services;

LETTER FROM THE BOARD

- asset management services. The Group manages the assets of customers and receives service fees for such services; and
- other comprehensive securities and financial advisory and consulting services. The Group receives advisory fees and/or other fees for such services.

5. *Pricing Basis*

A. *Pricing Basis for Securities and Financial Products and Transactions*

The market rates in respect of each of the Securities and Financial Products and Transactions are generally transparent and standardized across the market. The commission rates and fees charged for these products and transactions shall be determined based on arm's length negotiation with reference to the prevailing market price or the prevailing market rates normally applicable to Independent Third Parties for similar types of transactions at the time of the transactions.

The Securities and Financial Products and Transactions are mainly conducted through the PRC inter-bank bond market and the PRC exchange bond market, exchanges (including stock exchanges, futures exchanges, Shanghai Gold Exchange, etc.) and the open-ended fund market. The commission rates and fees charged for the Securities and Financial Products and Transactions conducted through such particular trading venues depend on the particular trading venue on which the relevant transaction is carried out.

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

The major types of securities and financial products traded on the PRC inter-bank bond market and the PRC exchange bond market include inter-bank lending, collateralized repurchase, buyout repurchase, spot trading, bond lending, asset securitisation products and interest rate swap, etc. The pricing of the transactions conducted at the PRC inter-bank bond market and the PRC exchange bond market are based on the prices quoted in the PRC inter-bank bond market and the PRC exchange bond market. Such prices are mainly determined with reference to the valuation of the relevant securities and financial products published by China Central Depository & Clearing Co., Ltd. on the previous trading day (“**CCDC Valuation Data**”), yield curve and the turnover details published by China Foreign Exchange Trading System & National Interbank Funding Centre. The Company may subscribe for the CCDC Valuation Data each year, and get access to the data of China Foreign Exchange Trading System through the information channels and websites of official and voluntary industry regulatory authorities, such as <http://www.chinamoney.com.cn>; the Company may also get access to the relevant data through the database provided by information service providers, such as Wind Information.

LETTER FROM THE BOARD

- Securities and financial products traded on the exchanges

The major types of securities and financial products traded on the Shanghai Stock Exchange, Shenzhen Stock Exchange, Shanghai Gold Exchange and the PRC futures exchanges include stocks, funds, bonds, gold products, futures, etc. Share options are also traded on Shanghai Stock Exchange. Call auction mechanism is mainly adopted in these exchanges and the pricing is primarily determined with reference to the turnover of a particular securities and financial product. The Company has access to the trading systems of the relevant exchanges to obtain the real-time quotations of the relevant securities and financial products.

- Securities and financial products traded on the open-ended fund market

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

With respect to the pricing of securities and financial products without direct market quotations, the Company mainly refers to the prices of the transactions for similar products with two or more Independent Third Parties to determine if the pricing and terms of the transactions between the Company or its subsidiaries and JIC and/or its associates are fair, reasonable and no more favourable than those of the transactions between the Company or its subsidiaries and Independent Third Parties.

To ensure that the Securities and Financial Products and Transactions are entered into on normal commercial terms and to safeguard the interests of the Shareholders as a whole, the Group has put in place internal approval and monitoring procedures relating to the Group’s connected transactions, further details of which are set out in “III. Internal Monitoring Measures” below.

B. Pricing Basis for Securities and Financial Services

The pricing basis for the Securities and Financial Services is as follows:

- financial products agency sale services — service fees shall be determined based on factors including market prices, industry practice and the total amount of financial products under the agency sale arrangements with reference to the service fee rate for the last half year charged by the Group for comparable agency sale service provided to Independent Third Party and the service fee rate for the subsisting financial products agency sale services is generally in the range of 0% to 1.5%;

LETTER FROM THE BOARD

- leasing of trading units services — the Group charges a percentage of the trading volume in respect of each trade conducted through the Group's trading units as the Group's commission where such percentage shall be determined based on the market rates for the last half year and industry practice. The commission rates charged on the leasing of trading units are generally transparent across the market. The commission rates charged by the Group for the subsisting leasing of trading units services are basically consistent with the commission rates in the market and generally in the range of 0.02% to 0.1%;
- brokerage services — the commission rates for these services are generally transparent and standardized across the market. The commission rates charged by the Group are determined based on arm's length negotiation with reference to the market rates for the latest week for securities or futures similar to existing business and generally in the range of 0.013% to 0.3%;
- investment banking services — the fees are determined with reference to factors including the market rates for projects of a similar type for the last half year and the amount of proceeds raised from the offering through competitive bidding, business negotiation or based on arm's length negotiation;

with respect to the underwriting fees for fixed-income products (including corporate bonds, company bonds, asset securitisation products, etc.), the fees are mainly determined through negotiations with issuer and competitive bidding according to the issuer, type and term of bonds;

with respect to the pricing for investment banking business, the CSRC published the Guidance on Internal Control of Investment Banking Business of Securities Companies (《證券公司投資銀行業務內部控制指引》) in 2018, pursuant to which in carrying out investment banking business, securities companies shall determine the price reasonably based on comprehensive assessment of execution cost. The price of the investment banking business of the Company is subject to regulation by the CSRC;

- asset management services — the fees charged for asset management services are determined based on arm's length negotiations with reference to factors including the market rates for the last half year, the size of the assets and the complexity of the particular service provided. The market rates for these services are generally transparent across the market. The rates charged by the Group for the subsisting asset management services are basically consistent with the market rates and generally in the range of 0.01% to 3%; and
- other comprehensive securities and financial advisory and consulting services — such services are determined based on arm's length negotiation with reference to the market rates for transactions of similar type and size for the last half year.

LETTER FROM THE BOARD

The terms (including pricing terms) in respect of the Securities and Financial Services to be provided by the Group to JIC and/or its associates shall be comparable to those provided to the Group's other independent institutional clients of similar profile and transaction amount. The Securities and Financial Services shall be subject to the same or stricter internal approval and monitoring procedures and pricing policies applicable to independent clients, further details of which are set out in "III. Internal Monitoring Measures" below.

6. *Historical Transaction Amounts*

A. *Securities and Financial Products and Transactions*

For the three years ending December 31, 2021, the annual caps of the Securities and Financial Products and Transactions are set out below:

(Unit: RMB'000)

For the year ended/ending December 31,

| Securities and Financial Products and Transactions | 2019 | 2020 | 2021 |
|---|------------------|------------------|------------------|
| In ⁽¹⁾⁽³⁾ | 4,690,721 | 8,108,500 | 9,718,500 |
| Out ⁽²⁾⁽³⁾ | <u>4,053,000</u> | <u>8,479,000</u> | <u>9,999,800</u> |

For the two years ended December 31, 2020 and the nine months ended September 30, 2021, the historical transaction amounts of the Securities and Financial Products and Transactions are set out below:

(Unit: RMB'000)

For the year ended December 31, September 30,

| Securities and Financial Products and Transactions | 2019 | 2020 | 2021 |
|---|------------------|----------------|----------------|
| In ⁽¹⁾⁽³⁾ | 2,289,738 | 1,208,745 | 1,007,680 |
| Out ⁽²⁾⁽³⁾ | <u>1,557,666</u> | <u>948,000</u> | <u>923,124</u> |

Notes:

- (1) "In" means the total cash inflow to the Group arising from the Securities and Financial Products and Transactions, including the sale and redemption of the relevant products, interests received from the relevant products.

LETTER FROM THE BOARD

- (2) “Out” means the total cash outflow from the Group arising from the Securities and Financial Products and Transactions, including the outflow arising from the purchase of the relevant products, interests paid for the relevant products and the repurchase of relevant products from the Group’s counterparties.
- (3) The “In” and “Out” reflect the capital flow between the Group and JIC and its subsidiaries. The contribution of such capital to the Group’s revenue is in the forms of bid-ask spread or interests accrued during the holding period or gain or loss on changes in fair value of securities, interests on financing, interest income from lending, management fee, handling fee, performance-based compensation, and other income from entrusted management of assets, investment income from investment asset management plan or other financial products, etc.

For the two years ended December 31, 2020 and the nine months ended September 30, 2021, the utilisation rates of the inflow of the Securities and Financial Products and Transactions are 48.81%, 14.91% and 10.37%, respectively, and the utilisation rates of the outflow of the Securities and Financial Products and Transactions are 38.43%, 11.18% and 9.23%, respectively.

B. Securities and Financial Services

For the three years ending December 31, 2021, the annual caps of the Securities and Financial Services are set out below:

(Unit: RMB’000)

| Securities and Financial Services | For the year ended/ending December 31, | | |
|---|---|----------------|----------------|
| | 2019 | 2020 | 2021 |
| The Group’s revenue generated from providing the Securities and Financial Services to JIC and/or its associates | <u>19,000</u> | <u>107,300</u> | <u>135,360</u> |

For the two years ended December 31, 2020 and the nine months ended September 30, 2021, the historical transaction amounts of the Securities and Financial Services are set out below:

(Unit: RMB’000)

| Securities and Financial Services | For the year ended December 31, | | For the nine months ended September 30, |
|---|--|---------------|--|
| | 2019 | 2020 | 2021 |
| The Group’s revenue generated from providing the Securities and Financial Services to JIC and/or its associates | <u>15,323</u> | <u>28,688</u> | <u>17,129</u> |

For the two years ended December 31, 2020 and the nine months ended September 30, 2021, the utilisation rates of the Securities and Financial Services are 80.65%, 26.74% and 12.65%, respectively.

LETTER FROM THE BOARD

7. Proposed Annual Caps and Basis of Determination

A. Securities and Financial Products and Transactions

The proposed annual caps of the Securities and Financial Products and Transactions for the three years ending December 31, 2024 are set out below:

(Unit: RMB'000)

| Securities and Financial Product and Transactions | Annual caps for the year ending December 31, | | |
|---|--|-------------------|-------------------|
| | 2022 | 2023 | 2024 |
| In ⁽¹⁾⁽³⁾ | 34,373,400 | 35,385,100 | 36,650,100 |
| Out ⁽²⁾⁽³⁾ | <u>37,303,400</u> | <u>38,315,100</u> | <u>39,580,100</u> |

In estimating the annual caps of the total inflow amount and total outflow amount of the Securities and Financial Products and Transactions of the Group, the Company has considered, among others, the following key factors:

- (1) Historical data on the total cash inflows and total cash outflows of certain Securities and Financial Products and Transactions previously entered into by certain members of the Group with JIC and its associates for the two years ended December 31, 2020 and the nine months ended September 30, 2021, including the subscription for or redemption of funds, trust products and asset management products, securities trading, etc. by certain members of the Group with associates of JIC, with inflows and outflows of approximately RMB2,200 million and RMB1,500 million for 2019, approximately RMB1,200 million and RMB900 million for 2020, and approximately RMB1,000 million and RMB900 million for the nine months ended September 30, 2021, respectively. Historically, the fluctuation of such transactions was relatively high, and once they occurred, the transaction amount was significant. Based on the preliminary transaction intention reached or solicited by the Company with JIC and its associates, the intended subscription amount of the Group is approximately RMB1,000 million. Considering the Group's high demand for liquidity management, the scale of cash management may reach the level of RMB10,000 million, and the Group needs to seek some monetary funds with liquidity management function from the market as investment targets. According to the public data of Wind Information, so far, the total size of the monetary funds managed by the associates of JIC has been approximately RMB230,000 million, among which the total size of each of 3 monetary funds has exceeded RMB10,000 million, and thus the relevant monetary fund products meet the investment criteria on liquidity management. The Group's Exchange-traded Fund ("ETF") market-making business continues to grow, with the size of domestic non-monetary ETFs growing by a compound grown rate of 26.58% from 2013 to October 30, 2021, and the size of ETFs managed by the associates of JIC increased by a compound grown rate of 60.49% over the same period.

LETTER FROM THE BOARD

Based on a cap of RMB1,440 million in 2021 and a 30% annual increase over the previous year from 2022 onwards. At the same time, the bond issuance volume of the associates of JIC continues to grow. For example, JIC Leasing Co., Ltd., an associate of JIC, issued bonds of RMB5,600 million in 2019, RMB6,700 million in 2020 and RMB8,600 million from January to September 2021. It is more likely that the Company will subscribe for the financial products issued by the associates of JIC. In addition, as of October 2021, the outstanding market capitalization of gold ETFs managed by JIC and its associates was approximately RMB500 million with an average daily trading volume of RMB150 million. According to the historical market-making data of the Company for gold, non-ferrous metal and monetary funds, the Company usually accounted for 5.00% to 12.50% of the total trading volume of fund market makers, and based on the middle-point of 6.67% on that day and the frequent market price fluctuations throughout the year, the annual accumulated trading volume was approximately RMB2,500 million (i.e. an average daily trading volume of RMB150 million * annual trading days of approximately 250 days * 6.67%). In summary, although the actual transaction amounts were not high historically, in view of the future development trend of the Company's businesses and the gradually solid cooperative relationship with JIC and its associates, it is expected that the inflow and outflow of such transactions as subscription for or redemption of funds, trust products and asset management products, and securities trading by the Group with JIC and its associates will be capped at RMB11,373 million and RMB9,303 million in 2022, respectively, and will increase by 10% in each subsequent year, respectively.

- (2) The Company and JIC and its associates have the needs for innovative business and other securities trading business, mainly due to the potential for rapid growth in the amount of derivative transactions. According to the report on OTC business development disclosed by the Securities Association of China, in terms of OTC derivatives, the overall existing size of OTC derivative financial products of securities dealers amounted to a total of approximately RMB1.28 trillion as of the end of 2020, and it reached RMB1.90 trillion at the end of September 2021, exceeding that of last year by 48%. In terms of income certificates, as at the end of September 2021, the existing size of the income certificate business of securities dealers was RMB408,100 million. With the successive acquisition of qualifications including the qualification for conducting cross-border business and the qualification of OTC options and dealers by the Company in recent years, the Company's overall OTC derivatives business has developed rapidly, and its client base, counterparties, product structure and application scenarios have been further enriched. Focusing on the capital intermediary business such as derivatives and quantitative trading, and with the main objective of serving customers, the Company continues to use derivatives to provide effective risk management, wealth management and asset allocation tools to the market, providing professional investors with differentiated and one-stop integrated financial services solutions. As of June 30, 2021, the Company's OTC options business ranked among the top in the industry in terms of both new and existing business scales, with the market share of individual stock options increasing rapidly, and the scale of cross-border business growing by over 300% compared to the end of the previous year.

LETTER FROM THE BOARD

Currently, the Company has been in contact with JIC and its associates regarding OTC derivatives, income certificates and other business, and intends to have more frequent and larger-scale dealings with JIC and its associates. In view of the rapid development in the size of the derivatives trading market and increasing customer demand, the scale of the Company's derivatives trading business will increase significantly in the next three financial years; and as the Group's cooperation with JIC and its associates continues to grow, the Company expects to generate larger-scale derivatives and other innovative business transactions with JIC and its associates.

Considering the future development of OTC derivatives and income certificate business and other innovative business of the Company, together with the characteristics of large amount of single transaction, high frequency and strong timeliness of such businesses, the Company has made a higher estimate of the proposed transaction cap for the next three years, with the inflow and outflow caps of RMB23,000 million and RMB28,000 million respectively for the next three years.

The Company considers that it is impracticable and extremely difficult to set a separate annual cap for each type of the Securities and Financial Products and Transactions for the following key reasons:

- each of the Securities and Financial Products and Transactions is entered into at the then prevailing market prices in the ordinary course of the Group's business with high frequency and significant fluctuations in the value of such transactions. Such transactions are market-driven and are entered into depending on various factors including, among others, the bidding price and timing of the bids. The value of each of these transactions is determined by the market and varies from time to time and from year to year depending on various external factors that are out of the Group's control, including the then economic conditions as well as the fluctuations in the financial markets. Accordingly, historical data for each type of these transactions may not be a fair indication as to the expected aggregate value of the transactions for the three years ending December 31, 2024;
- setting an annual cap for each type of the Securities and Financial Products and Transactions may adversely affect the Group's business. Most of the Securities and Financial Products and Transactions are entered into in a very short timeframe and are very sensitive to market prices. If an annual cap is set for each type of the Securities and Financial Products and Transactions, it may cause significant delay to such transactions and undue disruption to the Group's existing operations and potential growth to the detriment of the Company and the Shareholders as a whole and restrict the Group's overall competitiveness in a highly competitive securities industry. Setting an annual cap for each type of these transactions will therefore be impracticable and extremely difficult for the Company;
- constant emergence of new products. The variety and characteristics of products are changing frequently in the ever-changing PRC securities and financial market, hence it is difficult to practically estimate with accuracy when new products will be launched;

LETTER FROM THE BOARD

- the Group plays a relatively passive role in some of these transactions. As such, it is impracticable for the Group to estimate the expected annual value of such transactions with accuracy. For example, JIC and/or its associates may purchase products of the Group based on their own business needs. The Group handles such transactions with JIC and/or its associates in a manner similar to that of the Group's transactions with Independent Third Parties, and the Group has no control over whether and which products of the Group JIC or its associates purchase or the timing or amount of their purchases; and
- all Securities and Financial Product and Transactions will continue to be entered into at the then prevailing market prices or market rates in the ordinary course of the Group's business and the business of JIC and/or its associates.

In light of the above, the Company considers that it is more practicable to set annual caps for the total inflow and outflow of all the Securities and Financial Products and Transactions under the New Framework Agreement, instead of a separate annual cap for each type of those products and transactions.

B. Securities and Financial Services

The proposed annual caps of the Securities and Financial Services for the three years ending December 31, 2024 are set out below:

(Unit: RMB'000)

| Securities and Financial Services | Annual caps for the year ending December 31, | | |
|---|---|----------------|----------------|
| | 2022 | 2023 | 2024 |
| The Group's revenue generated from providing the Securities and Financial Services to JIC and/or its associates | <u>186,270</u> | <u>223,360</u> | <u>273,310</u> |

In estimating the annual caps of the revenue to be generated from the Securities and Financial Services of the Group, the Company has considered, among others, the following key factors:

- (1) For the two years ended December 31, 2020 and the nine months ended September 30, 2021, the Group's historical transaction amounts arising from the provision of financial services to JIC and its associates (including different service fees and commission and fees, etc. charged for the provision of various financial services) amounted to RMB15 million in 2019, RMB29 million in 2020 and RMB17 million for the nine months ended September 30, 2021. In addition, considering that most of the financial services provided by the Group to JIC and its associates are market-oriented, the determination of the proposed annual caps needs to take sufficient account of market fluctuations and changes. Otherwise, an excessively tight annual cap may result in disruption to the Group's business and impair the Group's ability to respond promptly to a highly active financial market.

LETTER FROM THE BOARD

- (2) The growing and diversifying businesses of JIC and its associates, plus the Group's plan to deepen cooperation with JIC and its associates in the future, will create more opportunities for the Group to provide financial services.

The fees charged for certain services will likely to increase, taking into account market conditions. For example:

- China's stock market has picked up since 2019 as the trading volume of stocks hit record high repeatedly, with trillions of trading volume for dozens of consecutive trading days in 2021. For example, the trading amount of Shanghai Securities Composite Index was RMB92.4 trillion as at the end of October 2021, representing a year-on-year increase of 35.68% as compared to RMB68.1 trillion for the same period in 2020. In addition, as the stock market continues to expand, with the opening of the STAR Market in 2019 and the launch of the Beijing Stock Exchange in 2021, it is expected that the Company's commission and fees for stock trading will continue to increase in the future. Therefore, it is proposed that the securities services such as agency trading of securities and leasing of trading units related to the brokerage business be capped at RMB50 million in 2022, with an annual increase of approximately 50% thereafter;
- The cooperation in investment advisory business will be deepened gradually. At the initial stage of business, the Company has commenced investment advisory business with JIC and its associates for a product scale of RMB600 million. With the development of business, the growth in scale is estimated at RMB6,000 million, which will generate RMB12 million of fixed investment advisory fee income if calculated at 2‰ of the investment advisory fee. In addition, pursuant to provisions of the contract, the Company may be entitled to a floating investment advisory fee, which is based on the account income. In conclusion, although there is no historical transaction amount for this type of business, it is proposed to apply for an investment advisory service income quota of RMB30 million for the next three years;
- In 2021, the Company's investment banking business achieved further development. Although the Company has not provided investment banking services to JIC and its associates in its history, considering that among JIC and its subsidiaries there are trust companies, leasing companies, technology companies and cultural companies, it is likely for the Company to provide bond underwriting, issuance of asset-backed securities, underwriting sponsorship, mergers and acquisition and restructuring, recommendation for listing and other investment banking services to JIC and its subsidiaries in the future. The income from investment banking business of the Company in 2020 was approximately RMB1,400 million, representing an increase of approximately 20% over 2019. If the investment banking business of the Company grows at a rate of 20% per annum for the next three years, based on that the income from investment banking services provided by the Company to JIC and its subsidiaries accounted for approximately 4% of the income from investment banking business, and will grow at a rate of approximately 10% per annum, the income from investment banking business is expected to be RMB80 million, RMB90 million and RMB100 million, respectively for the future three years;

LETTER FROM THE BOARD

- In recent years, the Company has achieved faster development in services such as investment management, fund custody or fund operation and agency sale. For example, the Company's agency sale of third-party financial products amounted to RMB110,314 million in 2020, representing an increase of 136.76% over the previous year. The Company's investment management business segment achieved operating income of RMB1,884 million in 2020, representing an increase of 15.36% over the previous year. There is a possibility for the Company to provide relevant securities and financial services to JIC and its associates. Taking into account the cooperation in the past three years and the future business development trend, it is proposed that the relevant service income be capped at RMB26 million, RMB28 million and RMB29.5 million, respectively, in the future three years.

In line with economic growth and market reforms, the Chinese securities market is expected to develop further and the Company will continue to expand its financial services.

8. Reasons for and Benefits of Entering into the New Framework Agreement

In the ordinary course of business, the Group regularly engages in various kinds of Securities and Financial Products and Transactions with various counterparties, including JIC and its associates. The Group purchases suitable securities and financial products from different providers (including JIC and its associates, which are the Group's connected persons, and Independent Third Parties) based on the Group's internal evaluation system and procedures with reference to various factors including the cost, market condition and the Group's risk exposure, business needs and development requirements. JIC and/or its associates also purchase securities and financial products from the Group in their ordinary course of business from time to time, taking into account their business needs and the suitability of the products the Group offered.

Meanwhile, in the ordinary course of business, the Group provides securities and financial services to its customers, which include JIC and its associates. Due to their business needs and the Group's expertise and professional capabilities, the Group has been engaged by JIC and its associates to provide Securities and Financial Services from time to time.

9. Listing Rules Implications

As at the Latest Practicable Date, JIC directly holds approximately 26.34% of the total issued share capital of the Company. Therefore, JIC is a Substantial Shareholder of the Company, and according to Chapter 14A of the Listing Rules, a connected person of the Company. Accordingly, the transactions contemplated under the New Framework Agreement entered into between the Company and JIC constitute continuing connected transactions of the Company under the Listing Rules. As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the New Framework Agreement and the transactions contemplated thereunder exceeds 5%, such transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

III. INTERNAL MONITORING MEASURES

The Group has taken a series of internal monitoring measures to regulate the continuing connected transactions under the New Framework Agreement. The main internal monitoring measures include the followings:

- (1) The Company has prepared internal guidelines in accordance with the Listing Rules, which provide approval procedures for connected transactions;
- (2) For the Securities and Financial Products and Transactions, the Company has established its internal guidelines and policies for conducting transactions of different types of the Securities and Financial Products and Transactions. Such policies and guidelines set out the requirements for pre-trading pricing enquiries, applicable interest rate, the procedures for price determination, approval authority and procedures, record keeping, supervision and review procedures for conducting transactions of different types of the Securities and Financial Products and Transactions;
- (3) For the provision of the Securities and Financial Services to JIC and/or its associates, the Company or its subsidiaries shall refer to the prices offered to two or more Independent Third Parties for similar services to determine if the pricing and terms offered by the Company or its subsidiaries to JIC and/or its associates are fair, reasonable and no more favourable than those offered by the Company or its subsidiaries to Independent Third Parties;
- (4) In order to strengthen the management of the Company's connected transactions, the Company has designated specific departments such as the legal and compliance department and the Board office to take the lead in management of the Company's connected transactions and to remind the business departments and the Company's subsidiaries to supervise and control such connected transactions. Meanwhile, each of the Company's business departments and subsidiaries designate specific person to be the contact person for the management of connected transactions, responsible for establishing the connected transaction ledger of each department and subsidiary, summarizing and conducting statistics on the Company's connected transactions on a quarterly basis. The business departments are responsible for real-time monitor on the amounts of connected transactions incurred, and back-end departments such as the legal and compliance department and the Board office will summarize and monitor the actual amount of connected transactions on a quarterly basis according to the data provided by the business departments. A transaction alert will be launched to inform the legal and compliance department of the Company in advance if the business department discovers that the amount of connected transactions within the quarter will or are expected to exceed annual caps. The legal and compliance department of the Company will strengthen the subsequent approval and control of connected transactions and review such transactions on a case-by-case basis. Connected transactions may be suspended if necessary, or be proceeded with upon the performance of the consideration and disclosure procedures for the revision of annual caps by the Company according to relevant rules, so as to ensure that the annual caps will not be exceeded;

LETTER FROM THE BOARD

- (5) The continuing connected transactions are subject to annual review by all the independent non-executive Directors and the auditors of the Company. The results of the review conducted by the independent non-executive Directors of the Company, and the work undertaken by the auditors of the Company in respect of the continuing connected transactions and the outcome of that work are disclosed in the annual report of the Company; and
- (6) Documents and records with respect to the connected transactions are required to be maintained and kept properly.

IV. OPINIONS OF THE BOARD

As Ms. Ge Rongrong, Mr. Ren Xiaotao and Ms. Zhang Ying, being the Directors of the Company, are Directors despatched by Central Huijin, they are therefore deemed to have material interest in the New Framework Agreement and the transactions contemplated thereunder. Thus, they have abstained from voting on the Board resolution to approve the renewal of the continuing connected transactions under the Framework Agreement and the proposed annual caps thereof. Save as disclosed above, none of the other Directors have any material interest in the relevant Board resolution, and none of the other Directors are required to abstain from voting on the relevant Board resolution.

Having considered the abovementioned pricing basis, the basis for the proposed annual caps, reasons for and benefits of entering into the New Framework Agreement and internal monitoring measures, the Board (including independent non-executive Directors) is of the opinion that the terms of the New Framework Agreement and the proposed annual caps thereof are entered into in the ordinary and usual course of business of the Company on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

V. INFORMATION ON THE PARTIES

The Group is an investment holding group focused on securities businesses and mainly provides comprehensive financial services, including enterprise finance, personal finance, institutional services and trading, as well as investment management.

JIC is a company with limited liability incorporated in the PRC and a comprehensive investment group mainly engaged in equity investment. JIC is a wholly-owned subsidiary of Central Huijin.

The resolution has been considered and approved at the Board meeting held on December 6, 2021 and is now submitted to the EGM for consideration and approval.

THE EGM

The 2021 second extraordinary general meeting of the Company will be held at 2:30 p.m. on Thursday, December 30, 2021 at the Company's conference room, No. 19, Taipingqiao Street, Xicheng District, Beijing, the PRC. A notice convening the EGM is set out on pages 45 to 46 of this circular.

The summary of the important dates for H Shareholders is as follows:

Last Registration Date: on or before 4:30 p.m. on Thursday, December 23, 2021

LETTER FROM THE BOARD

Closure of Register for H Shares: Friday, December 24, 2021 to Thursday, December 30, 2021

Submission of Proxy Form: on or before 2:30 p.m. on Wednesday, December 29, 2021

In order to determine the H Shareholders' entitlement to attend the EGM, the H Share register of members of the Company will be closed from Friday, December 24, 2021 to Thursday, December 30, 2021 (both days inclusive), during which period no transfer of H Shares will be registered. In order for holder(s) of H Share(s) to attend the EGM, the relevant share certificates, accompanied by all share transfer documents, must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, on or before 4:30 p.m. on Thursday, December 23, 2021. H Shareholders whose names appear on the H Share register of members of the Company on Friday, December 24, 2021 shall be entitled to attend and vote at the EGM.

H Shareholders should return the proxy form, or the notarized power of attorney or other authorization documents to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by hand or by post, no later than 24 hours before the time appointed for convening the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof in person if you so wish.

The record date for determination of the qualified A Shareholders to attend the EGM and the registration date for such meeting are Thursday, December 23, 2021 and Friday, December 24, 2021, respectively. For details, please refer to the notice of the EGM dated Friday, December 10, 2021 published on the website of the Shenzhen Stock Exchange at www.szse.cn.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of Shareholders at a general meeting must be taken by poll. Therefore, the resolution to be proposed at the EGM will be voted by poll. Results of the poll voting will be posted on the website of Hong Kong Stock Exchange at www.hkexnews.hk and on the website of the Company at www.swhygh.com upon the conclusion of the EGM.

The above resolution 1 is an ordinary resolution to be passed by the affirmative votes representing over one half of the total number of Shares held by the Shareholders attending the EGM with voting rights.

Pursuant to Rule 2.15 of the Listing Rules, where Shareholders' approval is required with regard to a transaction, any Shareholder that has a material interest in such transaction shall abstain from voting on the resolution(s) on whether or not to approve such transaction at the Shareholders' general meeting. As far as the Directors are aware as at the Latest Practicable Date, the Shareholders who have a material interest in the resolution 1, i.e. JIC and Central Huijin, will abstain from voting on the resolution 1. As at the Latest Practicable Date, JIC directly holds 6,596,306,947 Shares with voting rights of the Company (representing approximately 26.34% of the total issued share capital of the Company) and Central Huijin directly holds 5,020,606,527 Shares with voting rights of the Company (representing approximately 20.05% of the total issued share capital of the Company). Save as disclosed above, no Shareholder is considered to have a material interest in any of the resolution proposed at the EGM and has to abstain from voting at the EGM approving the resolution.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee (comprising all independent non-executive Directors, i.e. Ms. Yeung Siuman Shirley, Mr. Wu Changqi, Mr. Chen Hanwen and Mr. Zhao Lei) has been established to advise the Independent Shareholders in respect of the renewal of the Framework Agreement and the transactions contemplated thereunder and the proposed annual caps for the three years ending December 31, 2024. The Company has appointed Somerley as its Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

Your attention is drawn to the Letter from the Independent Board Committee as set out on page 22 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser (as set out on pages 23 to 39 of this circular), is of the view that the terms of the New Framework Agreement are entered into in the ordinary and usual course of business of the Company on normal commercial terms, and its terms and conditions and proposed annual caps are fair and reasonable, and in the interests of the Company and its Shareholders as a whole. The Independent Board Committee, as stated in its letter, recommends the Independent Shareholders to vote in favor of the resolution to approve the renewal of the Framework Agreement and the transactions contemplated thereunder and the proposed annual caps for the three years ending December 31, 2024.

The Directors (including the independent non-executive Directors having considered the advice of the Independent Financial Adviser) consider that the above resolution is in the best interests of the Company and its Shareholders as a whole. Therefore, the Board recommends you to vote in favour of the relevant resolution set out in the notice of the EGM attached to this circular.

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
By order of the Board
Shenwan Hongyuan Group Co., Ltd.
Chu Xiaoming
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



申萬宏源集團股份有限公司
SHENWAN HONGYUAN GROUP CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6806)

December 10, 2021

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS —
RENEWAL OF THE SECURITIES AND FINANCIAL PRODUCTS,
TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT**

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the fairness and reasonableness of the renewal of the Framework Agreement and the transactions contemplated thereunder, and the proposed annual caps for the three years ending December 31, 2024, details of which are set out in the “Letter from the Board” in the circular (the “Circular”) dated December 10, 2021 of the Company. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

Your attention is drawn to the advice of Somerley to the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Framework Agreement and the transactions contemplated thereunder, and the proposed annual caps for the three years ending December 31, 2024 as set out in the “Letter from Somerley” of the Circular. Having taken into account the advice of Somerley, we consider that the terms of the New Framework Agreement are entered into on normal commercial terms in the ordinary and usual course of business of the Company, and the terms and conditions and the proposed annual caps are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the resolution to approve the ordinary resolution for the renewal of the Framework Agreement and the transactions contemplated thereunder, and the proposed annual caps for the three years ending December 31, 2024 at the 2021 second extraordinary general meeting.

Yours faithfully

For and on behalf of the Independent Board Committee

| | | | |
|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <i>Independent</i> | <i>Independent</i> | <i>Independent</i> | <i>Independent</i> |
| <i>non-executive Director</i> | <i>non-executive Director</i> | <i>non-executive Director</i> | <i>non-executive Director</i> |
| Yeung Siuman Shirley | Wu Changqi | Chen Hanwen | Zhao Lei |

LETTER FROM SOMERLEY

Set out below is the text of the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the New Framework Agreement and the transactions contemplated thereunder for inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

December 10, 2021

*To: the Independent Board Committee and the Independent Shareholders of
Shenwan Hongyuan Group Co., Ltd.*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS — RENEWAL OF THE SECURITIES AND FINANCIAL PRODUCTS, TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the transactions contemplated under the New Framework Agreement. Details of the terms of the New Framework Agreement and the proposed annual caps (the “**Proposed Annual Caps**”) are set out in the circular of the Company to the H Shareholders dated December 10, 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On March 29, 2019, the Framework Agreement was entered into between the Company and JIC, pursuant to which, among other things, the Group and JIC and/or their respective associates shall provide securities and financial products and transactions (the “**Securities and Financial Products and Transactions**”) to each other in their respective ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates and the Group shall provide securities and financial services (the “**Securities and Financial Services**”) to JIC and/or its associates (the “**JIC Group**”) for the three years from January 1, 2019 to December 31, 2021. On March 27, 2020, the Company proposed to amend the annual caps of the Securities and Financial Products and Transactions and the Securities and Financial Services for the years ended December 31, 2020 and ending December 31, 2021 (the “**Proposed Amendments to the Annual Caps**”).

As stated in the letter from the Board contained in the Circular, the Framework Agreement will expire on December 31, 2021. Accordingly, the Company has entered into the New Framework Agreement with JIC on December 6, 2021 to continue the provisions of the Securities and Financial Products and Transactions and the Securities and Financial Services for a term of three years effective from January 1, 2022 and expiring on December 31, 2024.

LETTER FROM SOMERLEY

As at the Latest Practicable Date, JIC directly held approximately 26.34% of the total issued share capital of the Company. Therefore JIC was a Substantial Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Framework Agreement entered into between the Company and JIC constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Annual Caps exceeds 5%, the transactions contemplated under the New Framework Agreements and the Proposed Annual Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Yeung Siuman Shirley, Mr. Wu Changqi, Mr. Chen Hanwen and Mr. Zhao Lei, has been formed to make recommendation to the Independent Shareholders in respect of the New Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps, and to make a recommendation as to voting. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the past two years, we acted as an independent financial adviser to (i) Shenwan Hongyuan (H.K.) Limited (stock code: 218) (“**SWHYHK**”), a non wholly-owned subsidiary of the Company, in relation to subscription of new shares by the Group (as disclosed in the circular of SWHYHK dated January 16, 2019) and (ii) the Company in relation to the Proposed Amendments to the Annual Caps (as disclosed in the circular of the Company dated June 3, 2020). The past engagements were limited to providing independent advisory services to SWHYHK and the Company pursuant to the Listing Rules, for which we received normal professional fees relevant to such type of engagements. Accordingly, we do not consider the past engagements would affect our independence to act as the independent financial adviser to the Company under the current engagement.

We are not associated with the Company, JIC or their respective associates, close associates or core connected persons (all as defined under the Listing Rules) and accordingly are considered eligible to give independent advice on the above matter. Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fee or benefit from the Company, JIC or their respective associates, close associates or core connected persons.

In formulating our opinion, we have reviewed, among others, the New Framework Agreement, the Prospectus, the annual report of the Company for the year ended December 31, 2020 (the “**2020 Annual Report**”), the interim report of the Company for the six months ended June 30, 2021 (the “**2021 Interim Report**”) and the information contained in the Circular. We have also discussed with and reviewed information provided by the management of the Group (the “**Management**”) regarding the business of the Group, the prospect of conducting the transactions contemplated under the New Framework Agreement and the basis for estimating the Proposed Annual Caps.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the Management and have assumed that they are true, accurate, and complete in all material respects at the time they were made and up to the Latest Practicable Date. The Shareholders will be informed as soon as practicable if we become aware of any material change to such information up to the date of EGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have

LETTER FROM SOMERLEY

received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation with regard to the terms of the New Framework Agreement and the Proposed Annual Caps, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

(a) *Business of the Group*

The Company is a joint stock company incorporated in the PRC with limited liability. The Company's A Shares (stock code: 000166) have been listed on the Shenzhen Stock Exchange since January 2015 and the Company's H Shares (stock code: 6806) have been listed on the Hong Kong Stock Exchange since April 2019. The Group is an investment holding group focused on securities businesses and mainly provides comprehensive financial services, including enterprise finance, personal finance, institutional services and trading, as well as investment management. Set out below a brief summary of each of the business segments.

- (i) Enterprise finance — the Group provides investment banking and principal investment services to its clients. In investment banking business, the Group provides equity underwriting and sponsorship, debt underwriting and financial advisory services for corporate clients. In principal investment business, the Group is engaged in equity investment and debt investment in non-listed companies.
- (ii) Personal finance — the Group serves the comprehensive financial needs of individuals and non-professional institutional investors. The Group provides services such as securities and futures brokerage, margin financing and securities lending, stock-backed lending, sales of financial products and investment advisory through its extensive online and offline channels.
- (iii) Institutional services and trading — the Group provides prime brokerage and research and consultation services for professional institutional clients. The Group is also engaged in the trading of fixed income currencies and commodities (“**FICC**”), equity and equity-linked securities, based on which the Group offers sales, trading, hedging and over-the-counter (“**OTC**”) derivatives services to institutional clients.
- (iv) Investment management — the Group is engaged in asset management, mutual fund management and private equity fund management services.

LETTER FROM SOMERLEY

(b) Financial performance of the Group

Set out in the table below is a summary of the Group's financial performance and the breakdown of revenue and other income by business segments for the years ended December 31, 2019 and 2020 and for the six months ended June 30, 2020 and 2021.

| | For the six months ended June 30, | | For the year ended December 31, | |
|--|--------------------------------------|--------------------------|------------------------------------|--------------------------|
| | 2021 | 2020 | 2020 | 2019 |
| | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> |
| Revenue and other income | | | | |
| Enterprise finance | | | | |
| — Investment banking | 756.8 | 440.1 | 1,602.6 | 1,218.8 |
| — Principal investment | 743.7 | 848.5 | 1,394.0 | 1,499.1 |
| Personal finance | 6,402.4 | 6,007.9 | 12,850.0 | 11,344.7 |
| Institutional services and trading | 12,482.7 | 9,481.9 | 20,921.2 | 17,166.2 |
| Investment management | 894.6 | 1,011.7 | 2,388.6 | 2,022.7 |
| Total | 21,280.2 | 17,790.1 | 39,156.4 | 33,251.5 |
| Profit for the period/year attributable to the Shareholders | | | | |
| | 4,520.9 | 4,034.8 | 7,766.2 | 5,735.4 |

Revenue and other income of the Group and profit attributable to the Shareholders increased by approximately 17.8% and approximately 35.4%, respectively, for the year ended December 30, 2020 as compared with those for the year ended December 31, 2019, which were mainly driven by the year-on-year top line growths of the institutional services and trading and personal finance segments of approximately 21.9% and approximately 13.3%, respectively. According to the 2020 Annual Report, despite the negative impact caused by COVID-19 to the global economy, net profit of the Group recorded a new high in five years primarily due to the Group's various development strategies including adoption of an innovative profit model and creation of new growth drivers, which enhanced market competitiveness and profitability of the Group.

As mentioned in the 2021 Interim Report, driven by the global economic recovery and favourable domestic policies at the beginning of the "14th Five-Year" period, the domestic capital market presented a good development trend for the first half of 2021, and the Group continued to maintain a good growth of its financial performance. Revenue and other income of the Group and profit attributable to the Shareholders increased by approximately 19.6% and approximately 12.0%, respectively, for the six months ended June 30, 2021, as compared to those for the corresponding period in 2020. The revenue and other income of institutional services and trading and personal finance segments continued to grow by approximately 31.6% and approximately 6.6%, respectively, as compared with those for the corresponding period in 2020, and they altogether contributed over 85% of those of the Group.

2. Information on JIC

China Jianyin Investment Ltd. (JIC) is a company with limited liability incorporated in the PRC and a comprehensive investment group mainly engaged in equity investment. JIC is a wholly-owned subsidiary of Central Huijin and indirectly owned by the State Council of the PRC. According to the website of JIC, it has more than 15,000 employees around the world and more than 200 subsidiaries that are wholly or partly owned and operating across the PRC, Hong Kong and overseas markets. Financial services, industrial manufacturing, culture, consumption and information technologies are among the sectors to which JIC attaches great importance. In addition, JIC's financial services segment comprises multiple businesses including trust, fund, leasing, securities, commercial banking and insurance. It is the controlling shareholder of JIC Trust Co., Ltd. (中建投信託股份有限公司), Guotai Asset Management Co., Ltd. (國泰基金管理有限公司) and JIC Leasing Co., Ltd. (中建投租賃股份有限公司). As of December 31, 2020, JIC held 100.0% stake in JIC Trust Co., Ltd., 60% stake in Guotai Asset Management Co., Ltd. and 80.72% stake in JIC Leasing Co., Ltd..

According to the annual report of JIC for the year ended December 31, 2020, JIC recorded a consolidated operating profit of approximately RMB8.5 billion and a consolidated net profit attributable to its shareholders of approximately RMB5.9 billion for the year ended December 31, 2020. As disclosed in the interim report of JIC for the six months ended June 30, 2021, JIC had total consolidated assets and consolidated net assets amounted to approximately RMB192.3 billion and approximately RMB93.8 billion, respectively, as at June 30, 2021.

3. Principal terms of the New Framework Agreement

Set out below are the principal terms of the New Framework Agreement:

Date

December 6, 2021

Parties

- (i) the Company; and
- (ii) JIC

Term

Three years from January 1, 2022 to December 31, 2024

Subject matters

The Group and JIC and/or its associates shall provide the Securities and Financial Products and Transactions to each other and the Group shall provide the Securities and Financial Services to JIC and/or its associates in their respective ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates.

LETTER FROM SOMERLEY

The Securities and Financial Products and Transactions include (but are not limited to) the followings:

- equity-related products, including but not limited, equity interest, funds, trust, asset management schemes, exchangeable bonds, convertible bonds and structured products;
- fixed-income products, including but not limited to, funds, trust, bonds, debt, and structured products with fixed income characteristics;
- hybrid products, including but not limited, funds, trust, asset management schemes and structured products;
- financing transactions among financial institutions with or without guarantees; and
- other related securities and financial products and derivative products.

The Securities and Financial Services include (but are not limited to) the followings:

- financial products agency sale services;
- leasing of trading units services;
- brokerage services including securities brokerage and related financial products brokerage services;
- investment banking services including but not limited to, underwriting and sponsorship services for stock, equity interests, bonds and other products, and financial advisory services for other general corporate restructuring, mergers and acquisition;
- asset management services; and
- other comprehensive securities and financial advisory and consulting services.

Other principal terms of the New Framework Agreement are set out in the letter from the Board contained in the Circular.

4. Pricing basis

(a) Pricing basis for Securities and Financial Products and Transactions

As stated in the letter from the Board contained in the Circular, the market rates in respect of each of the Securities and Financial Products and Transactions are generally transparent and standardised across the market. The commission rates and fees charged for these products and transactions shall be determined based on arm's length negotiation with reference to the prevailing market price or the prevailing market rates normally applicable to Independent Third Parties for similar types of transactions at the time of the transactions.

LETTER FROM SOMERLEY

The Securities and Financial Products and Transactions are mainly conducted through the PRC inter-bank bond market and the PRC exchange bond market, exchanges (including stock exchanges, futures exchanges, Shanghai Gold Exchange, etc.) and the open-ended fund market. The commission rates and fees charged for the Securities and Financial Products and Transactions conducted through such particular trading venues depend on the particular trading venue on which the relevant transaction is carried out.

With respect to the pricing of securities and financial products without direct market quotations, the Company mainly refers to the prices of the transactions for similar products with two or more Independent Third Parties to determine if the pricing and terms of the transactions between the Company or its subsidiaries and the JIC Group are fair, reasonable and no more favourable than those of the transactions between the Company or its subsidiaries and Independent Third Parties.

For further details of the pricing basis for the Securities and Financial Products and Transactions, please refer to the section headed “5. Pricing Basis” in the letter from the Board contained in the Circular.

Based on the above and our further discussions with the Management, we understand that pricing for the Securities and Financial Products and Transactions are predominantly based on (i) the market price listed on the relevant exchanges; (ii) certain prescribed valuation guidance outlined by the relevant regulatory bodies in the PRC; or (iii) the net asset value, in case of a Fund Product. Overall, we consider the pricing of the Securities and Financial Products and Transactions transparent and reliable since most of these transactions are transacted in an open market environment. In the event that there is no direct market quotation, the Company shall compare the subject connected transaction with two or more similar transactions with Independent Third Parties to ensure the terms of the subject connected transaction are no more favourable than those of the transactions between the Company or its subsidiaries and Independent Third Parties.

(b) Pricing basis for Securities and Financial Services

As stated in the letter from the Board contained in the Circular, the pricing basis for the Securities and Financial Services is as follow:

- (i) financial products agency sale services — service fees shall be determined based on factors including market prices, industry practice and the total amount of financial products under the agency sale arrangements with reference to the service fee rate for the last half year charged by the Group for comparable agency sale service provided to Independent Third Party and the service fee rate for the subsisting financial products agency sale services is generally in the range of 0% to 1.5%;
- (ii) leasing of trading units services — the Group charges a percentage of the trading volume in respect of each trade conducted through the Group’s trading units as the Group’s commission where such percentage shall be determined based on the market rates for the last half year and industry practice. The commission rates charged on the leasing of trading units are generally transparent across the market. The commission rates charged by the Group for the subsisting leasing of trading units services are basically consistent with the commission rates in the market and generally in the range of 0.02% to 0.1%;

LETTER FROM SOMERLEY

- (iii) brokerage services — the commission rates for these services are generally transparent and standardised across the market. The commission rates charged by the Group are determined based on arm's length negotiation with reference to the market rates for the latest week for securities or futures similar to existing business and generally in the range of 0.013% to 0.3%;
- (iv) investment banking services — the fees are determined with reference to factors including the market rates for projects of a similar type for the last half year and the amount of proceeds raised from the offering through competitive bidding, business negotiation or based on arm's length negotiation;

With respect to the underwriting fees for fixed-income products (including corporate bonds, company bonds, asset securitisation products, etc.), the fees are mainly determined through negotiations with issuer and competitive bidding according to the issuer, type and term of bonds;

With respect to the pricing for investment banking business, the CSRC published the Guidance on Internal Control of Investment Banking Business of Securities Companies (《證券公司投資銀行業務內部控制指引》) in 2018, pursuant to which in carrying out investment banking business, securities companies shall determine the price reasonably based on comprehensive assessment of execution cost. The price of the investment banking business of the Company is subject to regulation by the CSRC;

- (v) asset management services — the fees charged for asset management services are determined based on arm's length negotiations with reference to factors including the market rates for the last half year, the size of the assets and the complexity of the particular service provided. The market rates for these services are generally transparent across the market. The rates charged by the Group for the subsisting asset management services are basically consistent with the market rates and generally in the range of 0.01% to 3%; and
- (vi) other comprehensive securities and financial advisory and consulting services — such services are determined based on arm's length negotiation with reference to the market rates for transactions of similar type and size for the last half year.

Based on the above, we understand that the pricing basis for the Securities and Financial Services is generally transparent despite having a wider range of fee percentage for certain Securities and Financial Services, which shall be determined based on, among other factors, transaction size and complexity of the service to be provided etc.. That said, we further note that, according to the Group's Internal Monitoring Measures (as defined below), the Company shall refer to the prices offered to two or more Independent Third Parties for similar services to determine if the pricing and terms offered by the Company or its subsidiaries to the JIC Group are fair, reasonable and no more favourable to the JIC Group than those offered by the Company or its subsidiaries to Independent Third Parties. This puts in place an additional layer of internal control measures to ensure the terms of the relevant transactions between the Group and the JIC Group to be no less favourable to the Group than those provided to or obtained from independent third parties for comparable transactions.

LETTER FROM SOMERLEY

5. Reasons for and the benefits of entering into the New Framework Agreement

As stated in the letter from the Board contained in the Circular, in the ordinary course of business, the Group regularly engages in various kinds of Securities and Financial Products and Transactions with various counterparties, including JIC and its associates. The Group purchases suitable securities and financial products from different providers (including JIC and its associates and Independent Third Parties) based on the Group's internal evaluation system and procedures with reference to various factors including cost, market condition and the Group's risk exposure, business needs and development requirements. The JIC Group also purchases securities and financial products from the Group in their ordinary course of business from time to time, taking into account their business needs and the suitability of the products the Group offered.

Meanwhile, in the ordinary course of business, the Group provides securities and financial services to its customers, which include JIC and its associates. Due to their business needs and the Group's expertise and professional capabilities, the Group had been engaged by JIC and its associates to provide Securities and Financial Services from time to time.

In view of the above, it is noted that the transactions contemplated under the New Framework Agreement are the principal business of Group and we consider reasonable for the Group to enter into the New Framework Agreement with the JIC Group as it allows the Group to carry out its principal business without limitation.

6. Internal monitoring measures

As disclosed in the letter from the Board contained in the Circular, the Group has adopted the following internal monitoring measures (the "**Internal Monitoring Measures**") in relation to the continuing connected transactions under the New Framework Agreement and the annual caps thereof to safeguard the rights and interests of the Shareholders from a risk mitigation perspective:

- (i) the Company has prepared internal guidelines in accordance with the Listing Rules, which provide approval procedures for connected transactions;
- (ii) for the Securities and Financial Products and Transactions, the Company has established its internal guidelines and policies for conducting transactions of different types of the Securities and Financial Products and Transactions. Such policies and guidelines set out the requirements for pre-trading pricing enquiries, applicable interest rate, the procedures for price determination, approval authority and procedures, record keeping, supervision and review procedures for conducting transactions of different types of the Securities and Financial Products and Transactions;
- (iii) for the provision of the Securities and Financial Services to the JIC Group, the Company or its subsidiaries shall refer to the prices offered to two or more Independent Third Parties for similar services to determine if the pricing and terms offered by the Company or its subsidiaries to the JIC Group are fair, reasonable and no more favourable than those offered by the Company or its subsidiaries to Independent Third Parties;
- (iv) in order to strengthen the management of the Company's connected transactions, the Company has designated specific departments such as the legal and compliance department and the Board office to take lead in management of the Company's connected transactions and to remind the business departments and the Company's subsidiaries to supervise and control such connected transactions. Meanwhile, each of the Company's business

LETTER FROM SOMERLEY

departments and subsidiaries designates specific person to be the contact person for the management of connected transactions, responsible for establishing the connected transaction ledger of each department and subsidiary, summarising and conducting statistics on the Company's connected transactions on a quarterly basis. The business departments are responsible for real-time monitor on the amounts of connected transactions incurred, and back-end departments such as the legal and compliance department and the Board office will summarise and monitor the actual amount of connected transactions on a quarterly basis according to the data provided by the business department. A transaction alert will be launched to inform the legal and compliance department of the Company in advance if the business department discovers that the amount of connected transactions within the quarter will or are expected to exceed annual caps. The legal and compliance department of the Company will strengthen the subsequent approval and control of connected transactions and review on a case-by-case basis. Connected transactions may be suspended if necessary, or be proceeded with upon the performance of the consideration and disclosure procedures for the revision of annual caps by the Company in compliance with relevant rules, so as to ensure that the annual caps will not be exceeded;

- (v) the continuing connected transactions are subject to annual review by all the independent non-executive Directors and the auditors of the Company. The results of the review conducted by the independent non-executive Directors of the Company, and the work undertaken by the auditors of the Company in respect of the continuing connected transactions and the outcome of that work are disclosed in the annual report of the Company; and
- (vi) documents and records with respect to the connected transactions are required to be maintained and kept properly.

We have obtained and reviewed the aforementioned Internal Monitoring Measures and we note that (i) they set out a clear guideline for the Company's employees to follow; (ii) they make reference to service quotations provided to or by independent third parties when providing service quotations to connected persons of the Group shall ensure the fairness and reasonableness of the terms of the relevant transactions; (iii) the establishment of a systematic corporate governance structure enables the Company to self-regulate by assigning monitoring responsibilities to different departments; and (iv) regular reviews by the independent non-executive Directors and auditors of the Company shall further enhance the internal control measures of the Company. We have also reviewed two transaction records for the Securities and Financial Products and Transactions and two transaction records for the Securities and Financial Services entered into between the Group and independent third parties and compared them with the transactions entered into between the Group and connected persons, and we note that the pricings of transactions with connected persons were comparable to those with independent third parties. Overall, we consider the Internal Monitoring Measures provide a safeguard to the interests of the Company and the Shareholders as a whole.

LETTER FROM SOMERLEY

7. The Proposed Annual Caps

(a) The Proposed Products and Transactions Annual Caps

Set out in the table below are the historical transaction amounts of the Securities and Financial Products and Transactions for the years ended December 31, 2019 and 2020 and for the nine months ended September 30, 2021 and the annual caps for and utilisation rates of the Securities and Financial Products and Transactions for the years ended December 31, 2019 and 2020 and for the year ending December 31, 2021:

| | Historical transaction amount for the year ended December 31, | | Historical transaction amount for the nine months ended September 30, |
|-----------------------|--|------------------|--|
| | 2019 | 2020 | 2021 |
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| In ⁽¹⁾⁽³⁾ | 2,289,738 | 1,208,745 | 1,007,680 |
| Out ⁽²⁾⁽³⁾ | 1,557,666 | 948,000 | 923,124 |
| | Annual cap for the year ended/ending December 31, | | |
| | 2019 | 2020 | 2021 |
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| In ⁽¹⁾⁽³⁾ | 4,690,721 | 8,108,500 | 9,718,500 |
| Utilisation rate | 48.81% | 14.91% | 10.37% ⁽⁴⁾ |
| Out ⁽²⁾⁽³⁾ | 4,053,000 | 8,479,000 | 9,999,800 |
| Utilisation rate | 38.43% | 11.18% | 9.23% ⁽⁴⁾ |

Notes:

- (1) "In" means the total cash inflow to the Group arising from the Securities and Financial Products and Transactions, including the sale and redemption of the relevant products, interests received from the relevant products.
- (2) "Out" means the total cash outflow from the Group arising from the Securities and Financial Products and Transactions, including the cash outflow arising from the purchase of the relevant products, interests paid for the relevant products and the repurchase of relevant products by the Group's counterparties.

LETTER FROM SOMERLEY

- (3) The “In” and “Out” reflect the capital flow between the Group and JIC and its subsidiaries. The contribution of such capital to the Group’s revenue is in the forms of bid-ask spread or interests accrued during the holding period or gain or loss on changes in fair value of securities, interests on financing, interest income from lending, management fee, handling fee, performance-based compensation, and other income from entrusted management of assets, investment income from investment asset management plan or other financial products, etc.
- (4) The utilisation rates of the annual cap of the respective transactions for the year ending December 31, 2021 are based on historical transaction amounts for the nine months ended September 30, 2021.

Set out in the table below are the proposed annual caps for the Securities and Financial Products and Transactions for the three years ending December 31, 2024 (the “**Proposed Products and Transactions Annual Caps**”).

| | Annual cap for the year ending December 31, | | |
|-----------------------|--|------------------|------------------|
| | 2022 | 2023 | 2024 |
| | <i>(RMB’000)</i> | <i>(RMB’000)</i> | <i>(RMB’000)</i> |
| In ⁽¹⁾⁽³⁾ | 34,373,400 | 35,385,100 | 36,650,100 |
| Out ⁽²⁾⁽³⁾ | 37,303,400 | 38,315,100 | 39,580,100 |

We have discussed with the Management and obtained a breakdown of the Proposed Products and Transactions Annual Caps (the “**Products and Transactions Breakdown**”). We understood from our discussion that the inflow and outflow of the Proposed Products and Transactions Annual Caps are mostly reciprocal to one and the other. The proposed inflow and outflow of the Proposed Products and Transactions Annual Caps are mainly attributable to the following factors:

- (i) *Equity-related, fixed income and hybrid products*

According to the Products and Transactions Breakdown, we note that the inflow and outflow of the equity-related, fixed income and hybrid products mostly comprise the following:

- (A) the subscription and redemption of funds from the fund companies subordinated to JIC (the “**JIC Fund Company**”), which include (1) based on the preliminary transaction intention reached or solicited by the Company with JIC and its associates, the intended subscription amount of the Group is approximately RMB1,000 million and it may be further increased to RMB1,500 million; (2) the possibility for the Group to invest in monetary funds with liquidity management function. According to the public data of Wind Information, the total size of the monetary funds managed by JIC and its associates has been approximately RMB230,000 million, among which the total size of each of 3 monetary funds has exceeded RMB10,000 million, and thus the relevant monetary fund products meet the investment criteria on liquidity management; (3) the highest level of redemption trade of the Group with the JIC Fund Company in the most recent three years of RMB858 million in 2019 and an expected growth in fund scale as a reference to the amount that the Group might subscribe into the relevant funds for the three years ending December 31, 2024; and (4) the highest amount to be invested in any fund of not more than RMB500 million according to the Group’s investment policy;

LETTER FROM SOMERLEY

- (B) the demand for market making business and arbitrage trading for exchange traded funds (“ETFs”), which is based on the projected full year demand for the year ending 31 December 2021 of RMB1,440 million plus approximately 30% annual growth rate for each of upcoming three years. The expected growth rate of approximately 30% is determined with reference to the compound annual growth rate (“CAGR”) of total onshore ETFs scale of approximately 27% during the period between 2013 to mid-2021. As for gold ETFs, the Management made reference to the outstanding market capitalisation of gold ETFs managed by the JIC Group which amounted to approximately RMB500 million with an average daily trading volume of RMB150 million. Historically, the Group accounted for approximately 5.00% to 12.50% of total trading volume carried out by fund market makers in relation to gold, non-ferrous metal and monetary funds. In view of the above, the Group took 6.67% as the reference point and, accordingly, the expected annual accumulated trading volume shall be approximately RMB2,500 million (i.e. an average daily trading volume of RMB150 million * annual trading days of approximately 250 days * 6.67%);
- (C) the annualised trading volume of the relevant ETFs of the JIC Group based on the historical average daily trading volume in 2021 for market making and arbitrage trading;
- (D) the highest amount to be invested in any fund of not more than RMB500 million according to the Group’s investment policy; and
- (E) fund of funds subscriptions, which represent (1) 20% growth of the Company’s existing scale of public offering of funds of approximately RMB500 million for each of the three years ending 31 December 2024; (2) investment into overseas fixed income products of not more than 1% of the Group’s existing overseas asset under management; and (3) expected investment into the JIC Group’s fixed income products such as fixed income ETFs for the three years ending 31 December 2024 based on the investment made by the Group of approximately RMB120 million in 2020 and the potential increase in bonds size to be issued by the JIC Group as their business and asset scale continue to grow.

Given that the Group is unable to control the timing of redemption of the aforementioned possible investment, the maximum cash inflows of this category of transactions are generally close to the maximum cash outflows from the corresponding transactions.

(ii) Other related securities and financial products and derivative products

According to the Products and Transactions Breakdown, we note that the inflow and outflow are mostly related to the expected return of other related securities and financial products and derivative products according to the average size and return of other similar and comparable businesses. Furthermore, the Company has been in contact with the JIC Group regarding OTC derivatives, income certificates and other business, and intends to have more frequent and larger-scale dealings with the JIC Group. In view of the rapid development in the size of the derivatives trading market and increasing customer demand, the scale of the Group’s derivatives trading business is expected increase significantly in the next three financial years and, accordingly, the proposed annual caps are set to provide

LETTER FROM SOMERLEY

a greater flexibility to cater for the potential high growth in this segment. For reference purpose, we note from the report on OTC business development published by the Securities Association of China, in terms of OTC derivatives, the overall size of OTC derivative financial products of securities dealers amounted to a total of approximately RMB1.28 trillion as of the end of 2020, and it reached RMB1.90 trillion at the end of September 2021, exceeding that of last year by 48%. In terms of income certificates, as at the end of September 2021, the size of the income certificate business of securities dealers was RMB408,100 million.

(b) The Proposed Services Annual Caps

Set out in the table below are the historical transaction amounts of the Securities and Financial Services for the years ended December 31, 2019 and 2020 and for the nine months ended September 30, 2021 and the annual caps for and utilisation rates of the Securities and Financial Services for the years ended December 31, 2019 and 2020 and for the year ending December 31, 2021:

| | Historical transaction amount for the year ended December 31, | | Historical transaction amount for the nine months ended September 30, |
|---|--|------------------|--|
| | 2019 | 2020 | 2021 |
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| The Group's revenue generated from providing the Securities and Financial Services to JIC and/or its associates | 15,323 | 28,688 | 17,129 |
| | Annual cap for the year ended/ending December 31, | | |
| | 2019 | 2020 | 2021 |
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| The Group's revenue generated from providing the Securities and Financial Services to JIC and/or its associates | 19,000 | 107,300 | 135,360 |
| Utilisation rate | 80.65% | 26.74% | 12.65% <i>(Note)</i> |

Note: The utilisation rate of the annual cap of the transaction for the year ending December 31, 2021 is based on historical transaction amount for the nine months ended September 30, 2021.

LETTER FROM SOMERLEY

Set out in the table below are the proposed annual caps for the Securities and Financial Services for the three years ending December 31, 2024 (the “**Proposed Services Annual Caps**”).

| | Annual cap for the year ending December 31, | | |
|---|--|------------------|------------------|
| | 2022 | 2023 | 2024 |
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| The Group’s revenue generated from providing the Securities and Financial Services to JIC and/or its associates | 186,270 | 223,360 | 273,310 |

We have discussed with the Management and obtained a breakdown of the Proposed Services Annual Caps (the “**Services Breakdown**”) and the Proposed Service Annual Caps are mainly attributable to the following factors:

(i) Financial products agency sale services

According to the Services Breakdown and our discussion with the Management, we note that the Proposed Services Annual Caps for this category mostly represent agency sales of the financial products issued by the JIC Group. We also note that the Group’s agency sale of third-party financial products amounted to RMB110,314 million in 2020, representing an increase of approximately 136.76% over that for the previous year.

(ii) Leasing of trading units services

According to the Services Breakdown, we note that the Proposed Services Annual Caps in relation to this category mostly represent the leases of trading units to mutual fund managers, including JIC and its subsidiaries, and insurance companies who are not members of stock exchanges, enabling them to trade securities on the PRC stock exchanges. The Group charges commission and/or other fees for provision of such leasing service. The Management made reference to the historical commission charged in 2020 and applied 50% increase annually thereafter. In view of this, we have looked into the securities trading volume of the PRC stock market and, in particular, we note that the turnover of Shanghai Securities Composite Index was RMB92.4 trillion by the end of October 2021, representing a year-on-year increase of approximately 35.7% as compared to RMB68.1 trillion for the corresponding period in 2020. Also, the Beijing Stock Exchange was launched in November 2021 and it is also expected to bring additional trading demand on this new exchange. Overall, it is expected that the demand for the leasing of trading units services from the JIC Group will continue to increase, benefiting from increasing turnover and increase in number of stock exchanges.

LETTER FROM SOMERLEY

(iii) Brokerage services including securities brokerage and related financial products brokerage services

According to the Services Breakdown and our discussion with the Management, we note that the Proposed Services Annual Caps in relation to this category mostly represent the possibility for the Group to work with the JIC Group on brokerage settlement services. The Management has expected the annual amount to be processed would be approximately RMB2,000 million and the corresponding annual caps represent the fees to be charged for provision of the relevant settlement services to the JIC Group.

(iv) Investment banking services including but not limited to underwriting and sponsorship services for stock, equity securities, bonds and other products, and financial advisory services for other general corporate restructuring, mergers and acquisition

According to the Services Breakdown and our discussion with the Management, we note that the Proposed Services Annual Caps in relation to this category mostly represent the Group's expected vigorously development of the investment banking business to provide bond underwriting, issuance of asset-backed securities, underwriting sponsorship, mergers and acquisition and restructuring, recommendation for listing and other investment banking services to the JIC Group in the future. For instance, the Group's income from investment banking business for 2020 was approximately RMB1,400 million, representing an increase of approximately 20% over that for 2019. The Management assumed the investment banking business of the Company to grow at a rate of 20% per annum and the proportion of income from investment banking services to be provided to JIC and its subsidiaries will be accounted for approximately 4% (i.e. approximately RMB80 million) for the year ending 31 December 2022. Thereafter, such income is expected to grow at a rate of approximately 10% per annum and it shall amount to RMB80 million, RMB90 million and RMB100 million, respectively, for the coming three years.

(v) Other comprehensive securities and financial advisory and consulting services

According to the Services Breakdown, we note that the Proposed Services Annual Caps in relation to this category mostly represent the anticipated strengthening of the cooperation between the Group and the JIC Group in the investment advisory business, fund custody and other related business and asset management business, which had only commenced in August 2021. The Management estimated that the investment advisory business scale to be increased to RMB6,000 million and the fixed investment advisory fee income of up to RMB12 million per annum would be generated based on a commission charge rate of 0.2%. Pursuant to provisions of the contract, the Company may be entitled to a floating investment advisory fee, which is based on the account income. In addition, we have discussed with the Management and understand that the Proposed Services Annual Caps for this category is set higher to cater for the potential surge in demand since there was a very limited track record of this type of business and the demand may fluctuate greatly depending on market conditions.

LETTER FROM SOMERLEY

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the entering into the New Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. We are also of view that the terms of the New Framework Agreement, the transactions contemplated under the New Framework Agreement and the Proposed Annual Caps are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution in relation to the transactions contemplated under the New Framework Agreement and the Proposed Annual Caps at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Danny Cheng
Director

Mr. Danny Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, who is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 15 years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 omitted would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, none of the Directors, Supervisors or the chief executive of the Company 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 were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors, chief executive or their respective associates were deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

3. 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, excluding contracts expiring or terminable by the Company or any member of the Group within a year without payment of any compensation (other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to the Board, any of their respective associates was interested in any business (apart from the Group's business) which competes or possibly competes either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling Shareholder).

5. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since December 31, 2020 (being the date to which the latest published audited accounts of the Group were prepared), 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.

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

6. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, to the knowledge of the Directors, the following persons (not being Directors, Supervisors and the chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company under Section 336 of the SFO:

| Name of Substantial Shareholders | Class of Shares | Nature of interests | Number of Shares held (Share) ^{Note 4} | Percentage | Percentage | Long/ short positions |
|---|-----------------|-------------------------------------|---|---|---|-----------------------|
| | | | | of the total number of issued A Shares/ H Shares of the Company | of the total number of issued A Shares/ H Shares of the Company | |
| 1. Central Huijin Investment Ltd. ^{Note 1} | A Shares | Beneficial owner | 5,020,606,527 | 20.05 | 22.28 | Long positions |
| | A Shares | Interest in controlled corporations | 7,792,697,332 | 31.12 | 34.58 | Long positions |
| | H Shares | Interest in controlled corporations | 756,472,000 | 3.02 | 30.21 | Long positions |
| | H Shares | Interest in controlled corporations | 64,193,600 | 0.26 | 2.56 | Short positions |
| 2. China Jianyin Investment Limited | A Shares | Beneficial owner | 6,596,306,947 | 26.34 | 29.27 | Long positions |
| 3. Industrial and Commercial Bank of China Limited | H Shares | Beneficial owner | 648,404,800 | 2.59 | 25.89 | Long positions |
| 4. Everbright PGIM Fund Management Co., Ltd. (on behalf of EPF — Huaxia Life SMA One) (光大保德信 — 華夏人壽1號單一資產管理計劃) | H Shares | Trustee | 216,134,400 | 0.86 | 8.63 | Long positions |
| 5. Huaxia Life Insurance Co., Ltd. ^{Note 2} | H Shares | Beneficial owner | 216,134,000 | 0.86 | 8.63 | Long positions |
| 6. China Life Insurance (Group) Company | H Shares | Beneficial owner | 172,907,200 | 0.69 | 6.91 | Long positions |

- Note 1: Central Huijin holds the entire equity interest in JIC, the entire equity interest in Central Huijin Asset Management Ltd., and 63.16% of equity interest in China Everbright Group Ltd. The total number of A Shares of the Company held by JIC, Central Huijin Asset Management Ltd. and China Everbright Group Ltd. is 7,792,697,332. Central Huijin indirectly held 756,472,000 H Shares of the Company through its controlled corporations including Industrial and Commercial Bank of China Limited, and China Reinsurance (Group) Corporation. In particular, Central Huijin held 648,404,800 shares through Industrial and Commercial Bank of China Limited and 108,067,200 shares through China Reinsurance (Group) Corporation.
- Note 2: Huaxia Life Insurance Co., Ltd. has engaged Everbright PGIM Fund Management Co., Ltd. (光大保德信基金管理有限公司), a qualified domestic institutional investor as approved by the relevant PRC authority, as the asset manager, in the name of EPF — HuaXia Life SMA One (光大保德信 — 華夏人壽1號單一資產管理計劃), to subscribe for and hold the H Shares of the Company on behalf Huaxia Life Insurance Co., Ltd.
- Note 3: According to Part XV of the SFO, Shareholders of the Company are required to file disclosure of interests forms when certain criteria are fulfilled. If the Shareholders have not filed disclosure of interests forms as required under the SFO, the actual shareholdings of the Shareholders in the Company as at the Latest Practicable Date may be different from the shareholdings filed with the Hong Kong Stock Exchange. When the shareholdings of Shareholders in the Company change, it is not necessary for such Shareholders to notify the Company and the Hong Kong Stock Exchange unless certain criteria are fulfilled. Therefore, the actual shareholdings of Substantial Shareholders in the Company as at the Latest Practicable Date may be different from the shareholdings filed with the Hong Kong Stock Exchange.
- Note 4: As at the Latest Practicable Date, the Company has issued a total of 22,535,944,560 A Shares and 2,504,000,000 H Shares, totaling 25,039,944,560 Shares.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Directors, no other persons (not being Directors, Supervisors and the chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company under Section 336 of the SFO.

7. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors were in the employment of those companies which had interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

| Name | Positions held in specific companies |
|-----------------|---|
| Ms. Ge Rongrong | Designated director of Equity Management Department II/Office of the Directly Managed Enterprises Leading Group of Central Huijin |
| Mr. Ren Xiaotao | Designated director of Equity Management Department II/Office of the Directly Managed Enterprises Leading Group of Central Huijin |
| Ms. Zhang Ying | Designated director of Equity Management Department II/Office of the Directly Managed Enterprises Leading Group of Central Huijin |

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2020, being the date to which the latest published audited consolidated accounts of the Company were prepared.

9. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was involved in any material litigation or arbitration and there was no material litigation or claim known to the Directors to be pending or threatened by or against any member of the Group.

10. EXPERT'S DISCLOSURE OF INTEREST AND CONSENTS

- (1) The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

| Name | Qualification |
|--------------------------|---|
| Somerley Capital Limited | A corporation licensed by the Securities and Futures Commission to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

- (2) As at the Latest Practicable Date, the above expert did not have any direct or indirect shareholdings in any member of the Group or any right (whether legal enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (3) As at the Latest Practicable Date, the above expert did not have any direct or indirect interests in any assets which have been acquired, disposed of by or leased to or which were proposed to be acquired, disposed of by or leased to any member of the Group, since December 31, 2020, being the date to which the latest published audited consolidated accounts of the Company were prepared.
- (4) Somerley issued a letter dated December 10, 2021 for the purpose of incorporation in this circular in connection with its recommendation to the Independent Board Committee and the Independent Shareholders.
- (5) The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its expert's opinions and reference to its name in the form and context in which they appear.

11. OTHER INFORMATION

- (1) The joint company secretaries of the Company are Mr. Xu Liang and Mr. Wong Wai Chiu (a fellow of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries), a fellow of the Chartered Governance Institute of the United Kingdom, a member of CPA Australia, a member of the Hong Kong Trustees' Association and a Certified Trust Practitioner).

- (2) The registered office of the Company is Room 2001, 20/F, Dacheng International Building, 358 South Beijing Road, Urumqi High-tech Zone, Xinjiang, the PRC. The Company's principal place of business in Hong Kong is 40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong.
- (3) The H Share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

12. DOCUMENTS ON DISPLAY

Copies of the following documents are displayed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (<http://www.swhygh.com/>) from the date of this circular to and including the date of the EGM:

- (1) the New Framework Agreement;
- (2) the letter from the Independent Board Committee to the Independent Shareholders, which is set out on page 22 of this circular;
- (3) the letter from Somerley to the Independent Board Committee and the Independent Shareholders, which is set out on pages 23 to 39 of this circular; and
- (4) the written consent referred to in the paragraph 10 of this appendix.

NOTICE OF THE 2021 SECOND EXTRAORDINARY GENERAL MEETING



申萬宏源集團股份有限公司 SHENWAN HONGYUAN GROUP CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6806)

NOTICE OF THE 2021 SECOND EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2021 second extraordinary general meeting (the “EGM”) of Shenwan Hongyuan Group Co., Ltd. (the “Company”) will be held at 2:30 p.m. on Thursday, December 30, 2021 at the Company’s conference room, No. 19, Taipingqiao Street, Xicheng District, Beijing, the PRC to consider and, if thought fit, approve the following resolution.

ORDINARY RESOLUTION

1. To consider and approve the resolution regarding the renewal of the Securities and Financial Products, Transactions and Services Framework Agreement and the transactions contemplated thereunder and the proposed annual caps for the three years ending December 31, 2024

By order of the Board
Shenwan Hongyuan Group Co., Ltd.
Chu Xiaoming
Chairman

Beijing, the PRC
December 10, 2021

As at the date of this notice, the Board comprises Mr. Chu Xiaoming and Mr. Huang Hao as executive directors; Ms. Ge Rongrong, Mr. Ren Xiaotao, Mr. Zhang Yigang, Mr. Zhu Zhilong and Ms. Zhang Ying as non-executive directors; Ms. Yeung Siuman Shirley, Mr. Wu Changqi, Mr. Chen Hanwen and Mr. Zhao Lei as independent non-executive directors.

Notes:

1. In order to determine the H shareholders’ entitlement to attend the EGM, the H share register of members of the Company will be closed from Friday, December 24, 2021 to Thursday, December 30, 2021 (both days inclusive), during which period no transfer of H shares will be registered. In order for holders of H shares to attend the EGM, the relevant share certificates, accompanied by all share transfer documents, must be lodged with the Company’s H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Thursday, December 23, 2021. H shareholders whose names appear on the H share register of members of the Company on Friday, December 24, 2021 shall be entitled to attend and vote at the EGM.
2. Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his/her/its behalf at the EGM. A proxy needs not be a shareholder of the Company.

The proxy form shall be signed by the shareholder or his/her/its attorney who has been authorized in writing or, in the case of a corporation as a shareholder, must either be executed under its common seal or under the hand of its legal representative, director(s) or duly authorized attorney(s). In case of joint holders of the shares, the form of proxy must be signed by the joint holder whose name stands first in the register of members of the Company.

NOTICE OF THE 2021 SECOND EXTRAORDINARY GENERAL MEETING

H shareholders are required to return the proxy form or the notarized power of attorney or other authorization documents to the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by hand or by post no later than 24 hours before the time appointed for convening the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof in person if you so wish.

3. In case of joint shareholders and if more than one joint shareholder in person or by proxy attend the meeting, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted as the exclusion of the votes of the other joint shareholder(s) and for this purpose, seniority will be determined by the order in which the names stand on the register of members of the Company in respect of the joint shareholding.
4. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at a general meeting must be taken by poll. Therefore, the resolution to be proposed at the EGM will be voted by poll.

The aforesaid resolution 1 is an ordinary resolution to be passed by the affirmative votes representing over one half of the total number of shares held by the shareholders attending the EGM with voting rights.

Pursuant to Rule 2.15 of the Listing Rules, where shareholders' approval is required with regard to a transaction, any shareholder that has a material interest in such transaction shall abstain from voting on the resolution(s) on whether or not to approve such transaction at the shareholders' general meeting.

As far as the directors are aware as at the date of this notice, the shareholders who have a material interest in the resolution 1, i.e. China Jiayin Investment Limited and Central Huijin Investment Ltd., will abstain from voting on the resolution 1. Save as disclosed above, no shareholder is considered to have a material interest in any of the resolution proposed at the EGM and has to abstain from voting at the EGM approving the resolution.

5. The contact details of the place of business of the Company are as follows:

Contact Address: 20/F, Dacheng International Building, 358 South Beijing Road, Urumqi High-tech Zone, Xinjiang, the PRC/No. 19, Taipingqiao Street, Xicheng District, Beijing, the PRC

Postal Code: 830011/100033

Contact Person: Zhu Li/Li Dan

Telephone No.: (+86) 991 2301870/(+86) 10 88085057

Facsimile No.: (+86) 991 2301779/(+86) 10 88085059

6. The EGM is expected to last for half a day. Shareholders or their proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.