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**SHENWAN HONGYUAN (H.K.) LIMITED**  
**申萬宏源（香港）有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 218)**

**CONTINUING CONNECTED TRANSACTIONS**

The Board is pleased to announce that on 20 April 2022, the Company entered into the 2022 SWHYG MOU with SWHYG in relation to the transactions between the SWHYG Group and the Group to replace the 2019 SWHYG MOU. The 2022 SWHYG MOU shall be effective from 1 June 2022 upon the obtaining of the approval of the Independent Shareholders at the EGM and shall expire on 31 May 2025.

As SWHYG is deemed to be beneficially interested in 75.0% of the issued share capital of the Company and a substantial shareholder of the Company, SWHYG is a connected person of the Company under the Listing Rules. As such, the SWHYG Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since each of the asset ratio, the revenue ratio and the consideration ratio (as defined under Rule 14.07 of the Listing Rules) with reference to the largest Annual Cap in respect of the SWHYG Transactions exceeds 5% and the amount of the largest Annual Cap for the SWHYG Transactions is more than HK\$10 million respectively, the 2022 SWHYG MOU is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and whether the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee will advise the Independent Shareholders on how to vote at the EGM on the resolutions in respect of the Continuing Connected Transactions and the Annual Caps, after taking into account the recommendations of the Independent Financial Adviser.

A circular containing, among other things, (i) further details of the Continuing Connected Transactions; (ii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions and the Annual Caps; (iii) the recommendation of the Independent Board Committee regarding the Continuing Connected Transactions and the Annual Caps to the Independent Shareholders; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 13 May 2022.

## **BACKGROUND**

Reference is made to the announcement published by the Company on 29 March 2019 and the circular issued by the Company on 30 April 2019.

The continuing connected transactions contemplated under the 2019 SWHYG MOU were approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 17 May 2019. The 2019 SWHYG MOU will expire on 31 May 2022.

On 20 April 2022, the Company entered into the 2022 SWHYG MOU with SWHYG to replace the 2019 SWHYG MOU. The 2022 SWHYG MOU shall be effective from 1 June 2022 upon the obtaining of the approval of the Independent Shareholders at the EGM and shall expire on 31 May 2025.

## **PRINCIPAL TERMS OF THE MOU**

### **2022 SWHYG MOU**

#### ***Date***

20 April 2022

#### ***Parties***

- (1) SWHYG
- (2) the Company

#### ***Duration***

1 June 2022 to 31 May 2025

#### ***Provisions of services***

The scope of services consists of the following:

##### ***A. Services provided by the SWHYG Group to the Group:***

- (i) Brokerage services transactions: services provided by the SWHYG Group to the Group relating to brokerage services in the PRC capital markets, which include, but not limited to, B-share trading services, potential securities trading services under the Offshore Investors Schemes (including but not limited to QFI, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect), and other anticipated securities trading services;

- (ii) Investment operational supporting services transactions: supporting services provided by the SWHYG Group to the Group in support of the Group's PRC and overseas market development and operations, the scope of which include but not limited to the new products services launched or to be launched, such as the QFI, Mutual Recognition of Hong Kong and China Fund Programs, domestic commodity futures, domestic bonds (Bond Connect), Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, which include mainly business and market consultation services and personnel training services, including but not limited to (i) assigning relevant professional service personnel to provide consulting services to the Group, (ii) providing information on China's macroeconomic environment and business development on a regular basis and as required, (iii) providing logistics services, and (iv) conducting market research and writing the Chinese market research reports for the Group's internal reference;
- (iii) Research supporting services transactions: provision of various research materials to the Group by the SWHYG Group to support the Group's securities, futures, and corporate finance business, which include, but are not limited to economic analysis reports, investment strategy reports, industry sector reports, Hong Kong and PRC listed company research reports, fixed income product research reports, and derivative product research reports; and
- (iv) Corporate finance services transactions: the SWHYG Group and the Group will cooperate with each other in the corporate finance business and will jointly promote their businesses in bond capital market and equity capital market. The SWHYG Group recommends the Group to its clients and provides corporate finance services to the Group, including but not limited to, corporate finance projects, merger and acquisition projects and financial advisory services. The cooperation transactions are as follows:
  - (a) Corporate finance transactions: the SWHYG Group utilises its resources of its corporate finance business to provide information to the Group, and jointly develop and cultivate listing projects.
  - (b) Merger and acquisition transactions: the SWHYG Group provides information to the Group and recommends the Group to the clients of the SWHYG Group to provide financial advisory service in connection with merger and acquisition business.

- (c) Financial advisory transactions: the SWHYG Group provides to the Group information of financial advisory business, and introduces clients to the Group, so as to strengthen the market advantages of both parties and to provide more complete services to the clients. The financial advisory services include, but are not limited to, pre-initial public offering (“IPO”) private placement and the introduction of strategic investors, as well as advice on the sale of securities and corporate restructuring.

*B. Services provided by the Group to the SWHYG Group:*

- (i) Brokerage services transactions: brokerage services in Hong Kong and overseas capital markets provided by the Group to the SWHYG Group which consist of securities trading services and client referral services. The Group’s business scope includes, but not limited to, brokerage services and related services that provide overseas investment product transactions or related sales product brokerage services, stocks, futures, options, bonds, etc..

The Group will become one of the designated service providers of the SWHYG Group to provide brokerage services for the overseas investment products, including but not limited to, QDII, QDII 2, RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

- (ii) Investment operational supporting services transactions: Hong Kong and overseas market supporting services provided by the Group to the SWHYG Group. Services coverage includes, but not limited to, new products or new arrangements launched or to be launched in the future, such as QDII, QDII 2, RQDII, QFI, Mutual Recognition of Hong Kong and China Fund Programs and overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

Services to be provided by the Group include (i) assigning relevant professional service personnel to provide consulting services to the SWHYG Group, (ii) providing product basic data such as stocks, funds, bonds, indices, financial news, market trends, policy and regulatory news express, (iii) providing reports on industry, companies, macroeconomics, investment strategies, etc., (iv) providing special advisory services on matters related to securities investment, and (v) providing logistics services. The SWHYG Group can engage the Group to provide asset management services by way of managing the SWHYG Group's capital with investments. The services to be provided by the Group to the SWHYG Group include but not limited to the provision of investment advisory services for offshore securities investment single orientation asset management and other asset management programs.

- (iii) Corporate finance services transactions: the Group and the SWHYG Group will cooperate with each other in the corporate finance business, and the Group recommends the SWHYG Group to its clients and provides corporate finance services to the SWHYG Group, including but not limited to, corporate finance projects, merger and acquisition business, and financial advisory services. The cooperation transactions are as follows:
  - (a) Corporate finance transactions: The Group will fully utilise its resources in its corporate finance business to provide relevant information to the SWHYG Group and jointly develop and cultivate listing projects.
  - (b) Merger and acquisition transactions: The Group provides information to the SWHYG Group and recommends the SWHYG Group to the clients of the Group to provide financial advisory services in connection with merger and acquisition business.
  - (c) Financial advisory transactions: financial advisory services provided by the Group to the SWHYG Group include but not limited to information services and client referrals in connection with introduction of private equity and strategic pre-IPO investors.

The Group provides aforementioned corporate finance services to the SWHYG Group, including but not limited to capital raising (including but not limited to offering of securities (including IPO), share placements, bond issuances, etc.), acting as placing agent, listing agent, arranger, settlement lead manager, bookrunner, sponsor, global co-ordinator, etc., compliance advisory service in relation to the Listing Rules and the Takeovers Code, corporate restructuring and cross-border financial service, and other types of legal compliance advisory services.

*C. Principal-to-principal transactions of investment products:*

The principal-to-principal transactions between the SWHYG Group and the Group, including but not limited to, derivative transactions (including but not limited to total return swaps, swaps, options, futures, forwards, etc.) traded by linking diversified underlying assets, such as debt securities, stocks, bonds, private debts, private equity, commodities, funds, indices, interest rates, foreign exchange on the primary and secondary stock and debt securities markets; trading of structured products (including but not limited to bond-linked notes, interest rate-linked notes, fund-linked notes, equity-linked notes) as well as customised trading and related services. The principal-to-principal transactions of the aforesaid products are only conducted between Shenwan Hongyuan Securities Co., Ltd., a subsidiary of SWHYG Group, or subsidiaries included in the consolidated financial statement of Shenwan Hongyuan Securities Co., Ltd. and the Company.

***Pricing***

The SWHYG Group and the Group have agreed that the fees charged to each other during the cooperation period (including the principal-to-principal transactions and corporate finance transactions) will be based on principles of fairness and reasonableness, co-development, benefit sharing, based on the nature of the work and the nature of the services and the resources used, and are determined on a case-by-case basis in accordance with the general business principles, including reference to market levels. In addition, the terms and the fees in relation to the Continuing Connected Transactions shall be no more favorable to the SWHYG Group, or no less favorable to the Group, than the terms and the fees offered by the SWHYG Group or the Group to the independent third parties for similar comparable services, or the general terms and fees in the services or products procured from the independent third parties for similar comparable services. In no event shall the total amount received or paid in respect of the connected transactions exceed the annual cap of the connected transactions approved by the shareholders of the Company.

- (1) With respect to brokerage services transactions, the fees charged/chargeable or paid/payable (as the case may be) shall be determined with reference to, among other things, the fees, rates and commission for independent third parties in the market and the expected total brokerage transactions amount. For futures brokerage, the commission per lot per side varies according to (i) the type of futures contract, (ii) the stock exchange on which it is traded; and (iii) whether the trade is executed during the day or overnight in Hong Kong time. With respect to the brokerage ancillary services, for example research services, the fees charged/chargeable or paid/payable (as the case may be) shall be determined with reference to expected costs.

- (2) With respect to investment operational supporting services transactions, the fees charged by the Group to the SWHYG Group for developing Hong Kong and overseas markets will be determined based on normal commercial principles (including individual negotiation with reference to market levels and actual circumstances) or the actual costs incurred in connection with provision of services. The pricing policy will be based on a fixed percentage of the after-tax actual relevant commission earned by the SWHYG Group; the fees to be charged by the SWHYG Group to the Group for PRC market and overseas markets will be determined based on the expected costs to be incurred by the SWHYG Group for provision of the services. The expected costs are calculated based on the estimated number of man-days/man-hours needed for the work and with reference to the SWHYG Group's employees' hourly payroll in provision of daily operations, market consulting, staff training and other services in relation to the Group's PRC market development and operations. With respect to the investment management and advisory services transactions, the fees charged/chargeable or paid/payable (as the case may be) shall be determined with reference to including, among other things, the fund management fees and performance fees of independent third parties in the market.
- (3) With respect to research supporting service transactions, the pricing will be based on fixed monetary consideration agreed in writing for a six-month period, which the price and the terms will be determined based on arm's length basis and normal commercial principles based on the scope of work.
- (4) With respect to corporate finance services transactions, relevant business departments shall make reference to the fees for comparable transactions of independent third parties in the market and ensure that the pricing is negotiated on an arm's length basis.
- (5) With respect to principal-to-principal transactions, for bonds on the primary debt market, they will be priced at face value. For bonds traded over-the-counter on the secondary debt market, the price and terms will be determined on the basis of arm's length negotiations and respective clients' demand for the market making business; the structured products will be priced on normal and ordinary commercial terms and based on either (i) the complexity of the products' structure and market conditions at the time of issue and other factors; or (ii) if the products are tailor-made in accordance with the instructions of the purchasers, a cost-plus basis according to the complexity, structure, nature and volatility of the underlying assets and market conditions at the time of issue.



## PREVIOUS ANNUAL CAPS

Set out below are the Previous Annual Caps:

	Seven months ended	Year ended 31 December		Five months ended
	31 December 2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	31 May 2022 <i>HK\$'000</i>
Services provided by the SWHYG Group to the Group	70,273	131,874	144,381	65,874
(i) Brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	2,102	3,964	4,360	1,998
(ii) Supporting services for the PRC market from the SWHYG Group to the Group	9,689	18,271	20,098	9,212
(iii) Research services from the SWHYG Group to the Group	13,565	25,579	28,137	12,896
(iv) Supporting services in connection with corporate finance business from the SWHYG Group to the Group	44,917	84,060	91,786	41,768
Services provided by the Group to SWHYG Group	1,242,561	4,156,459	8,207,430	6,791,176
(i) Brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	2,907	5,481	6,029	2,763
(ii) Supporting services relating to Hong Kong and overseas markets and investment advisory services from the Group to the SWHYG Group	53,322	100,550	110,605	50,694
(iii) Supporting services in connection with corporate finance business from the Group to the SWHYG Group	5,928	11,178	12,296	5,636
Principal-to-principal trading of financial products	1,180,404	4,039,250	8,078,500	6,732,083
Annual Caps	1,312,834	4,288,333	8,351,811	6,857,050

Set out below is a summary of the Group's historical transaction amounts of the transactions under the 2019 SWHYG MOU for the seven months ended 31 December 2019, and each of the two years ended 31 December 2021:

	<b>Seven months ended 31 December 2019</b>	<b>Year ended 31 December</b>	
	<i>HK\$'000</i> (Audited)	<b>2020</b> <i>HK\$'000</i> (Audited)	<b>2021</b> <i>HK\$'000</i> (Audited)
Historical transaction amounts for services relating to the SWHYG Transactions comprising:			
Services provided by SWHYG Group to the Group	11,811	14,109	7,190
(i) Brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	167	502	495
(ii) Supporting services for the PRC market from the SWHYG Group to the Group	1,853	3,866	6,695
(iii) Research services from the SWHYG Group to the Group	7,880	9,700	–
(iv) Supporting services in connection with corporate finance business from the SWHYG Group to the Group	1,911	41	–
Services provided by the Group to SWHYG Group	26,788	1,043,891	55,185
(i) Brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	–	–	–
(ii) Supporting services relating to Hong Kong and overseas markets and investment advisory services from the Group to the SWHYG Group	4,357	7,810	22,558
(iii) Supporting services in connection with corporate finance business between the Group and the SWHYG Group	–	–	–
Principal-to-principal trading of financial products	22,431	1,036,081	32,627
Total historical transaction amounts	38,599	1,058,000	62,375

## Annual Caps

Set out below is a summary of the Annual Caps in respect of the proposed Continuing Connected Transactions for the seven months ending 31 December 2022, each of the two years ending 31 December 2024, and the five months ending 31 May 2025:

	Seven months	Year ended 31 December		Five months
	ended 31 December 2022 <i>HK\$'000</i>	2023 <i>HK\$'000</i>	2024 <i>HK\$'000</i>	Ending 31 May 2025 <i>HK\$'000</i>
Proposed Annual Caps for services relating to the SWHYG Transactions comprising				
Services provided by the SWHYG Group to the Group	90,343	174,888	234,104	152,475
(i) Brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	2,391	4,508	4,959	2,273
(ii) Investment operational supporting services from the SWHYG Group to the Group	21,131	42,723	80,550	71,871
(iii) Research services from the SWHYG Group to the Group	15,747	34,070	48,414	33,583
(iv) Corporate finance service from the SWHYG Group to the Group	51,074	93,587	100,181	44,748
Services provided by the Group to the SWHYG Group	1,222,219	6,132,755	10,217,991	6,791,179
(i) Brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	2,984	5,627	6,189	2,837
(ii) Investment operational supporting services relating to Hong Kong and overseas markets from the Group to the SWHYG Group	29,206	69,728	113,337	90,108
(iii) Corporate finance service from the Group to the SWHYG Group	9,625	18,150	19,965	9,151
Principal-to-principal trading of financial products	1,180,404	6,039,250	10,078,500	6,732,083
Annual Caps	1,312,562	6,307,643	10,452,095	6,986,654

## **BASIS OF THE ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS**

### **Brokerage services relating to the PRC capital markets from the SWHYG Group to the Group**

The SWHYG Group's brokerage services relating to the PRC capital markets mainly represents the brokerage services for securities trading related to the B-share and the Offshore Investors Schemes (including but not limited to QFI, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect). The Annual Caps in respect of the brokerage services provided by the SWHYG Group relating to the PRC market are determined with reference to (i) the historical transaction amounts of the B-share brokerage services provided by the SWHYG Group to the Group and the potential increase in the demand for brokerage services due to B-to-H Share Conversion; (ii) the potential increase in demand for brokerage services to be provided by the SWHYG Group to the Group upon the anticipated introduction of or increase of limits of some Offshore Investors Schemes; and (iii) estimated annual growth rate of 10% in service fees taking into account the anticipated growth of the PRC capital markets.

### **Investment operational supporting from the SWHYG Group to the Group**

With the development of the PRC economy, many measures allowing overseas investors to invest in the PRC capital markets have been launched or fermenting, including but not limited to QFI, the Mutual Recognition of Hong Kong and China Fund Programs, domestic commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. In addition, in view of the increasing number of PRC companies listed in both Hong Kong and the PRC markets, and the growing interest of the Group's clients in investing in the PRC-related securities, the demand for consultation service covering both Hong Kong and the PRC markets will grow continuously. Other than the PRC market, SWHYG Group has been actively developing and expanding its business in overseas market and it will also provide supporting services to the Group for the overseas market. The Directors consider it beneficial to market development, cost effective and less time consuming to engage the SWHYG Group in the provision of certain supporting services (which include mainly client referrals, business and market consultation services and personnel training services). The Annual Caps in respect of the supporting services are in terms of the service fees and are determined based on (i) the prevailing market rates and the estimated costs to be incurred in connection with provision of the supporting services; (ii) the estimated annual growth rate of 10% in service fees taking into account the expected rise in demand for such services from the Group and the increase in costs due to inflation; (iii) the increased demand

of the supporting services for the PRC market due to the increasing market demand and the enhanced business cooperation with the SWHYG Group; (iv) the historical Hong Kong securities brokerage commission income of the Group of approximately HK\$181.0 million for the year ended 31 December 2021 and it is expected that the respective payment for the supporting services for the PRC market will be around 10% of the securities brokerage commission income, and (v) the estimated annual growth rate of 150% in the investment advisory service fees and business collaboration service fees taking into account the fast positive growth of asset management business of the Group and business collaboration between the SWHYG Group and the Group.

### **Brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group**

The brokerage services for Hong Kong and overseas capital markets provided by the Group include but not limited to the securities trading services resulting from the launch and the anticipated launch of the Onshore Investors Schemes (including but not limited to QDII, QDII 2, RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect). The Annual Caps in respect of such brokerage services are determined with reference to (i) the potential increase in demand for the brokerage services to be provided by the Group to the SWHYG Group and its associates for the growing offshore investment business in connection with QDII, QDII 2 and RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect; and (ii) the estimated annual growth rate of approximately 10% in service fees taking into account the anticipated growth in demand for such services.

### **Investment operational supporting services relating to Hong Kong and overseas markets from the Group to the SWHYG Group**

With the development of the PRC economy, many measures allowing overseas investors to invest in the PRC capital markets and the PRC investors to invest in overseas capital markets have been launched or fermenting, including but not limited to QDII, QDII 2, RQDII, QFI, the Mutual Recognition of Hong Kong and China Fund Programs, overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect etc.. Regardless of whether the relevant measures are in the planning or implementation stage, the Group will provide supporting services to the SWHYG Group in areas such as client referrals, business and market consultation services and personnel training services, resulting in growth of the relevant service fees.

The Annual Caps in respect of the Group's supporting services are in terms of the service fees and are determined based on (i) the potential increase in number of customers participating in schemes such as QDII, QDII 2, RQDII, QFI, the Mutual Recognition of Hong Kong and China Fund Programs, overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect Scheme and Shenzhen-Hong Kong Stock Connect, and the potential growth in the corresponding commission income; (ii) the prevailing market rates and the estimated costs to be incurred in connection with provision of the supporting services; (iii) the estimated annual growth rate of 10% in service fees taking into account the expected rise in demand for such services from the Group and the increase in costs due to inflation. The Group will also provide asset management service to the SWHYG Group to manage its offshore capital. The expected amount of the service fees to be collected by the Group and its Annual Cap will be based on the expected amount of the capital of the SWHYG Group involved in the asset management service to be provided by the Group. Due to the enhanced market presence of the SWHYG Group in Hong Kong and the closer relationship between the SWHYG Group and the Group, the Group will be engaged to provide asset management service to manage the SWHYG Group's offshore capital for investment to utilize the expertise and experience in asset management of the Group. The investment advisory service fees and asset management service fees chargeable by the Group from the SWHYG Group are determined with reference to the estimated annual growth rate of 150% of those services. Taking into account this new asset management fee, the Annual Caps for supporting services for the Hong Kong and overseas market are significantly higher than the previous caps.

### **Supporting services relating to research from the SWHYG Group to the Group**

In view of the increasing number of dual-listed PRC companies listed in both the Hong Kong and the PRC markets, and the growing interest of the Group's foreign clients in investing in the PRC related securities, the Directors expect the demand for research materials covering both Hong Kong and PRC markets will grow continuously. In addition, as the Group will continue to actively develop its business with institutional investors, it is anticipated that more overseas institutional clients will be attracted to invest in the Hong Kong stock market, which in turn will lead to a rise in demand for research materials covering the PRC companies. Headquartered in the PRC, the SWHYG Group has its own securities research division principally engaged in securities research business, primarily covering the PRC listed companies. Given the significant and strong research capability of the SWHYG Group, the Directors consider that the Group's service level can be improved through utilizing the SWHYG Group's resources and therefore it is appropriate to engage it to provide such products and services. The Annual Caps in respect of the SWHYG Group's supporting services for research are determined with reference to (i) the historical transaction amounts of

the relevant transactions; and (ii) the estimated annual growth rate of approximately 10% in service fees taking into account the expected rise in demand for such services from the Group and the increase in costs due to inflation.

### **Corporate finance services between the Group and the SWHYG Group**

In view of the increase in cross-border business in relation to securities listings, the Group and the SWHYG Group could broaden cooperation in respect of corporate finance business, and will jointly promote the business in the securities capital market and equity capital market. The Annual Caps in respect of corporate finance services are determined with reference to (i) the estimated level of services to be provided by each of the Group and the SWHYG Group; and (ii) the estimated annual growth rate of approximately 10% in service fees taking into account the fund raising amounts of the PRC companies listed in Hong Kong and the PRC markets in recent years as well as the anticipated growth of the respective markets.

### **Principal-to-principal trading between the SWHYG Group and the Group**

In view of the increasing demand for structured products and hedging from the market and customers, the Annual Caps for the transactions between the Group and the SWHYG Group are determined with reference to the following factors:

- (i) the expected transaction value of debt securities traded between the Group and the SWHYG Group which includes newly issued bonds on the primary market priced on their face value and bonds traded on the secondary market on price agreed after arm's length negotiation;
- (ii) the expected transaction value of structured products traded between the Group and the SWHYG Group comprises the notional amount of the structured products and the revenue generated from them; and
- (iii) The total return swaps are conducted on a back-to-back basis initiated by the clients. As a principal of the transactions, total return swaps and underlying assets are booked on balance sheet for the exchanged/settled amounts and income statement on a net basis. Any gain or loss or interest income of the underlying assets is pass-through to the client.

The majority proportion of the Annual Caps of the principal-to-principal trading category is composed of the estimated amount of the gain or loss attributable to the clients of the SWHYG Group in offshore trading because such gain or loss amount is estimated to be large in terms of monetary value, taking into account the large expected trading volume attributable to the clients of the SWHYG Group and its expected high growth rate of 100% due to the increased market demand, the fact that there are only a few qualified financial institutions in the PRC engaging in the business of cross-border structured products where the SWHYG Group is one of the qualified institutions and the enhanced cooperation between the Group and the SWHYG Group.

## **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

The Directors believe that the entering into of the 2022 SWHYG MOU will serve as a platform for more extensive cooperation between the Group and the SWHYG Group. The SWHYG Group and the Group would continue to benefit through efficient use of their respective clientele and resources, and a synergy effect is expected to be achieved as a result of their cooperation. The Directors also believe that the Group's service quality will be enhanced through the provision of cross-border financial intermediary services. Therefore, the Directors consider that entering into the 2022 SWHYG MOU is in the interests of the Company and the Shareholders as a whole.

The terms of the 2022 SWHYG MOU were arrived at after arm's length negotiations between the Company and SWHYG. The Directors consider that the SWHYG Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.



## **INTERNAL CONTROL**

The terms of the 2022 SWHYG MOU were arrived at after arm's length negotiations between the Company and SWHYG. In order to ensure the pricing of each type of transactions is on normal commercial terms, the Company has established a series of internal control procedures, among others, including:

- (1) On an annual basis or more regularly as necessary, the responsible business department of the Group will procure other quotations for similar transaction values from independent brokers and services providers in the market for comparisons of the brokerage rates charged, the services fees of the supporting services, the service fees of the corporate finance services, the services fees of the asset management services and the price of the primary debt, secondary debt and structured products involved in the principal-to-principal transactions, to act as the basis to review the services and products sourced from the SWHYG Group and/or the services and products provided to the SWHYG Group. If no comparable transaction is available, the Group will conduct review based on the nature and the scope of work performed. Before the Group enters into any of the transactions, the responsible business department must ensure that (i) the price of the transaction is the same as, or within the price range of, comparable transactions carried out by independent third parties in the market (where such transactions are available as references; for tailor-made structured products which will be priced on cost-plus basis, the responsible business department of the Group will review the premium in the similar products offered to the independent third parties as reference) and the pricing policy; and (ii) if there is any change to the Group's pricing policy or mechanism, that the revised pricing policy or mechanism is in line with market practice.
- (2) On a yearly basis, the auditors submit a letter to the Board confirming that the Continuing Connected Transactions:
  - (i) have received the approval of the listed issuer's board of directors;
  - (ii) are, in all material respects, in accordance with the pricing policies of the listed issuer if the transactions involve provision of goods or services by the listed issuer;

- (iii) have been entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
  - (iv) have not exceeded the cap disclosed in previous announcement(s).
- (4) The independent non-executive Directors will conduct an annual review with respect to the continuing connected transactions of the Group throughout the preceding financial year and confirm in the annual report of the Company whether the transactions have been entered into:
- (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (5) The Finance department of the Group will also collect statistics of each of the renewed Continuing Connected Transactions on a yearly basis to ensure the annual caps approved by the Independent Shareholders are not exceeded.

## **INFORMATION ON THE GROUP AND THE SWHYG GROUP**

The Group is principally engaged in (i) brokerage business; (ii) corporate finance business; (iii) asset management business; (iv) financing and lending business; and (v) investment and other businesses.

The SWHYG Group is an investment banking group in the PRC. The A shares of SWHYG are listed on the Shenzhen Stock Exchange (stock code: 000166), and the H shares of SWHYG are listed on the Main Board of the Stock Exchange (Stock Code: 6806). The SWHYG 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.

## **LISTING RULES AND IMPLICATIONS**

As SWHYG is deemed to be beneficially interested in 75.0% of the issued share capital of the Company and a substantial shareholder of the Company, SWHYG is a connected person of the Company under the Listing Rules. As such, the SWHYG Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since each of the assets ratio, the revenue ratio and the consideration ratio (as defined under Rule 14.07 of the Listing Rules) with reference to the largest Annual Cap in respect of the SWHYG Transactions in aggregate exceeds 5% and the amount of the largest Annual Cap is more than HK\$10 million, the 2022 SWHYG MOU is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A Board meeting held on 28 March 2022 had approved, among other things, the 2022 SWHYG MOU. Among all the directors attending the Board meeting, Ms. Wu Meng, Mr. Guo Chun (the then director), Mr. Zhang Jian and Mr. Liang Jun were considered to be materially interested in the SWHYG Transactions and they voluntarily abstained from voting on the relevant Board resolutions approving the 2022 SWHYG MOU and related matters.

## **GENERAL**

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and whether the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Somerley Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The Independent Board Committee will advise the Independent Shareholders on how to vote at the EGM on the resolutions in respect of the Continuing Connected Transactions and the Annual Caps, after taking into account the recommendations of the Independent Financial Adviser.

A circular containing, among other things, (i) further details of the Continuing Connected Transactions; (ii) a letter from the independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions and the Annual Caps; (iii) the recommendation of the Independent Board Committee regarding the Continuing Connected Transactions and the Annual Caps to the Independent Shareholders; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 13 May 2022.

Voting at the EGM will be conducted by poll. SWHYG and its associates shall abstain from voting at the EGM in respect of the Continuing Connected Transactions as well as the Annual Caps.

## **DEFINITIONS**

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

“2019 SWHYG MOU”	the memorandum of understanding entered into between the Company and SWHYG on 29 March 2019, details of which have been disclosed in the announcement of the Company dated 29 March 2019
“2022 SWHYG MOU”	the memorandum of understanding entered into between the Company and SWHYG on 20 April 2022
“Annual Cap”	each of the proposed annual cap amounts of the Continuing Connected Transactions for the seven months ending 31 December 2022, each of the two years ending 31 December 2024 and the five months ending 31 May 2025, as set out in the paragraph headed “Annual Caps” in this announcement
“associates”	shall have the meaning ascribed thereto under the Listing Rules
“B-to-H Share Conversion”	conversion of B shares (shares denominated in RMB, subscribed and traded in foreign currencies on the stock exchanges in the PRC) to H shares (foreign shares registered in the PRC and traded on The Stock Exchange of Hong Kong Limited) of companies established in the PRC

“Board”	the board of Directors of the Company
“Bond Connect”	a mutual market access scheme that allows investors from Mainland China and overseas to trade in each other’s bond markets through connection between the related Mainland and Hong Kong financial infrastructure institutions
“Company”	Shenwan Hongyuan (H.K.) Limited
“Connected Person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	SWHYG Transactions
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of, among other things, approving the 2022 SWHYG MOU, and the transactions contemplated thereunder as well as the Annual Caps
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising the independent non-executive Directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang, formed to advise the Independent Shareholders in relation to the terms of the 2022 SWHYG MOU and the transactions contemplated thereunder, as well as the Annual Caps

<p>“Independent Financial Adviser” or “Sommerley Capital”</p>	<p>Sommerley Capital Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) and the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the terms of the 2022 SWHYG MOU and the transactions contemplated thereunder</p>
<p>“Independent Shareholders”</p>	<p>Shareholders who are not required to abstain from voting on the relevant matters at the EGM</p>
<p>“Listing Rules”</p>	<p>Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited</p>
<p>“Mutual Recognition of Hong Kong and China Fund Programs”</p>	<p>a mutual recognition fund platform for Hong Kong-domiciled funds to be sold in the PRC and for funds from the PRC to be sold in Hong Kong (subject to relevant authorities’ approvals)</p>
<p>“Offshore Investors Schemes”</p>	<p>the schemes under which offshore investors are permitted to invest directly in the PRC capital markets (subject to relevant authorities’ approvals)</p>
<p>“Onshore Investors Schemes”</p>	<p>the schemes under which the PRC onshore investors are permitted to invest directly in Hong Kong and overseas capital markets (subject to relevant authorities’ approvals)</p>
<p>“PRC” or “China”</p>	<p>the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan</p>
<p>“Previous Annual Caps”</p>	<p>the maximum aggregate annual value of various payments receivable from, or payable to the SWHYG Group arising from the continuing connected transactions under the 2019 SWHYG MOU</p>

“QDII”	the qualified domestic institutional investors program of the PRC, a program which allows either licensed domestic institutional investors or qualified domestic investors to invest in capital markets outside the PRC (for example Hong Kong) through institutions that have obtained QDII status
“QDII 2”	the new qualified domestic institutional investors program of the PRC (subject to relevant authorities’ approvals)
“QFI”	the qualified foreign investors program of the PRC, a program which allows qualified foreign institutional investors and RMB qualified foreign institutional investors to invest in China’s securities and futures markets with funds raised overseas which have been approved by China Securities Regulatory Commission
“RMB”	Renminbi, the lawful currency of the PRC
“RQDII”	the Renminbi qualified foreign institutional investors scheme of the PRC, a program which allows either licensed domestic institutional investors or qualified domestic investors to invest in the capital markets outside the PRC through institutions that have obtained RQDII status
“Shanghai-Hong Kong Stock Connect”	is a cross-boundary investment channel that connects the Shanghai Stock Exchange and the Stock Exchange
“Shareholders”	shareholders of the Company
“Shenzhen-Hong Kong Stock Connect”	is a cross-boundary investment channel that connects the Shenzhen Stock Exchange and the Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules

“SWHYG”	Shenwan Hongyuan Group Co., Ltd., a joint stock company incorporated under the laws of the PRC, the A shares of which are listed in the Shenzhen Stock Exchange (stock code: 000166) and the H shares of which are listed on the Main Board of the Stock Exchange (stock code: 6806)
“SWHYG Group”	SWHYG and its subsidiaries
“SWHYG Transactions”	transactions arising from the cooperation between the SWHYG Group and the Group pursuant to 2022 SWHYG MOU
“Takeover Code”	The Code on Takeovers and Mergers
“%”	per cent.

By order of the Board  
**Shenwan Hongyuan (H.K.) Limited**  
**Liang Jun**  
*Executive Director and Chief Executive Officer*

Hong Kong, 20 April 2022

*As at the date of this announcement, the Board comprises seven directors, of which Ms. Wu Meng, Mr. Zhang Jian and Mr. Liang Jun are the executive directors; Mr. Zhang Lei is the non-executive director; Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang are the independent non-executive directors.*