



SOMERLEY CAPITAL LIMITED

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13 May 2022

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the terms of 2022 SWHYG MOU and the Annual Caps. Details of the 2022 SWHYG MOU and the Annual Caps are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 13 May 2022 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As SWHYG is deemed to be beneficially interested in approximately 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 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.



The Independent Board Committee, comprising all of the three (3) independent non-executive Directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang, 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. 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, Somerley has acted as the independent financial adviser (the “**IFA Engagement**”) to the independent board committee and independent shareholders of SWHYG in relation to continuing connected transactions. The Company is a non wholly-owned subsidiary of SWHYG. For details of the transaction for which Somerley has been engaged as the independent financial adviser in the past two years, please refer to SWHYG’s announcement dated 6 December 2021. The above IFA Engagement was limited to providing independent financial advisory services to SWHYG pursuant to the Listing Rules, and Somerley, in return, has received fixed normal advisory fees from it. Somerley is not aware of any circumstances as set out in the Rule 13.84 under the Listing Rules or any other matters which may cause it to have a conflict of interest in acting as the independent financial adviser regarding the 2022 SWHYG MOU.

We are not associated with the Company, SWHYG Group or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the Continuing Connected Transactions and the Annual Caps. Apart from the normal fees payable to us in connection with this and similar engagements, no arrangements exist whereby we will receive any fees or benefits from the Company, SWHYG Group or their respective substantial shareholders or associates.



In formulating our opinion, we have reviewed, among others, the 2022 SWHYG MOU, the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”), the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”), and the information contained in the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete in all material aspects and will remain so up to the time of the 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 relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter. We have no reason to believe that any material information has been omitted or withheld from us, nor to doubt the truth, accuracy or completeness of the information provided. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, the SWHYG Group or their respective associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Background

1.1 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.

1.2 The entering into of the 2022 SWHYG MOU

The continuing connected transactions contemplated under the 2019 SWHYG MOU was 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 obtaining of the approval of the Independent Shareholders at the EGM and shall expire on 31 May 2025.

1.3 The scope of services under the 2022 SWHYG MOU

The services provided by the SWHYG Group to the Group include (i) brokerage services transactions; (ii) investment operational supporting services transactions; (iii) research supporting services transactions; and (iv) corporate finance services transactions. The services provided by the Group to the SWHYG Group include (i) brokerage services transactions; (ii) investment operational supporting services transactions; and (iii) corporate finance services transactions. In addition, the scope of services under the 2022 SWHYG MOU also includes principal-to-principal transactions of investment products between the SWHYG Group and the Group. For details of the aforementioned services, please refer to the section headed “2. Principal terms of the MOU” – “Provision of services” of the letter from the Board.

We noted that the scope of the services under the 2022 SWHYG MOU is generally the same as that under the 2019 SWHYG MOU and within the principal businesses of the Group.

1.4 Reasons for and benefits of, the entering into of the Continuing Connected Transactions

As stated in the letter from the Board, 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 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 of the 2022 SWHYG MOU is in the interests of the Company and the Shareholders as a whole.

Having considered (i) the long-term cooperation relationship between the Group and the SWHYG Group; and (ii) the SWHYG Group’s strong presence in both PRC and Hong Kong financial market, we concur with the Directors that the entering into of the 2022 SWHYG MOU is in the interests of the Company and the Shareholders as a whole.



2. Principal terms of the 2022 SWHYG MOU and pricing basis

2.1 Principal terms and pricing basis

The principal terms of the 2022 SWHYG MOU and the pricing basis of each category of transactions as extracted from the letter from the Board have been summarized as follows:

Parties involved	(1) The Company (2) SWHYG
Duration	From 1 June 2022 to 31 May 2025
Pricing basis	<p>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 favourable to the SWHYG Group or no less favourable 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.</p> <p>(1) With respect to securities brokerage 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.</p>



- (2) With respect to investment operational supporting services transactions, the fees charged by the Group to the SWHYG Group relating to the supporting services 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 (10%-20%) of the after-tax actual relevant commission earned by the SWHYG Group. The fees to be charged by the SWHYG Group to the Group relating to the supporting services will be determined based on either (i) the expected costs to be incurred by the SWHYG Group for provision of the services, which 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 development and operations; or (ii) fixed monetary consideration agreed in writing, 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. The Group will conduct on an annual basis or more regularly, if required, to review the fees charged with reference to the scope of the work performed. With respect to 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 services transactions, the pricing will be based on fixed monetary consideration agreed in writing for a six-month period, the price and the terms of which will be determined based on arm's length basis and normal commercial principles based on the scope of work. Given the bespoke nature of the supporting services on research, it is not practicable to obtain quotations from independent third parties for comparison. The Group will conduct on an annual basis or more regularly, if required, to review the fees charged with reference to the scope of work performed.



- (4) With respect to corporate finance 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. For total return swap transactions, the Group will only conduct total return swap transactions on a back-to-back basis and the transaction amount of which comprises significantly the gain or loss attributable to the clients of the SWHYG Group in offshore trading and a relatively smaller amount of interest income, which will be borne by such clients and generated from facilitating the transaction of total return swaps between the SWHYG Group and the Group. The Group will only charge the clients handling fees for such transactions.

2.2 Our discussion and assessment

2.2.1 Pricing mechanism

2.2.1.1 Services provided by the SWHYG Group to the Group

Brokerage services

As advised by the management of the Group, the SWHYG Group charges the Group at a fixed percentage of 0.05% to 0.10% of the gross consideration of clients' trade turnover. We have reviewed the quotation obtained by the Company from independent brokers in relation to securities brokerage services in the PRC markets and noted that the brokerage service fees charged by the SWHYG Group were no less favourable than those offered by the independent brokers.



Investment operational supporting services

As advised by the management of the Group, the investment operational supporting service fees charged by the SWHYG Group is determined based on the expected costs to be incurred by the SWHYG Group, which is 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 development and operations in the PRC and overseas markets. We have obtained invoices issued by the SWHYG Group for the provision of investment operational supporting services to the Group which set out the estimated man-days/man-hours and the average hourly payroll in calculating the expected costs of services, and noted that the average hourly payroll set out in the invoices issued by the SWHYG Group was comparable to the Group's time-cost rates.

Research supporting services

We have obtained the agreements entered into with the SWHYG Group in relation to the provision of research supporting services by the SWHYG Group and noted that (i) the pricing of the research supporting services provided by the SWHYG Group is based on fixed monetary consideration agreed in writing for a six-month or a full-year period; and (ii) the scope and nature of services as set out in those agreements matched those stated in the 2019 SWHYG MOU and those agreements have been reviewed by the management of the Group, the compliance department and the finance department before execution. We have reviewed the Group's internal pricing policy relating to cross-border research supporting services which, as advised by the management of the Group, has not been changed since 2019 and such policy applies to the research supporting services provided by both independent third parties and connected persons. However, the Company has not received such research supporting services from independent third parties in the past. As advised by the management of the Group, no research supporting services agreement was signed between the Group and the SWHYG Group in 2021 and the fixed monetary considerations paid by the Group to the SWHYG Group in 2019 – 2020 were no less favourable than the term as stipulated in the Group's internal pricing policy.



Corporate finance services

As advised by the management of the Group, the fees charged by the SWHYG Group to the Group relating to the provision of corporate finance services are determined based on a percentage of the revenue received from third party customers for each project. Those percentages ranged from 8% to 50% in the past, depending on the nature and amount of the work done by the SWHYG Group. We have reviewed the Group's internal pricing policy relating to cross-border corporate finance services which, as advised by the management of the Group, has not been changed since 2019 and such pricing policy applies to the corporate finance services provided by both independent third parties and connected persons. We noted that the percentages of the revenue charged by the SWHYG Group fall within the range as stipulated in the Group's internal pricing policy.

2.2.1.2 Services provided by the Group to SWHYG Group

Brokerage services

As advised by the management of the Group, the Group charges the SWHYG Group at a fixed percentage of 0.03% to 0.2% of the gross consideration of clients' trade turnover. As advised by the management of the Group, the Group did not provide any brokerage services to the SWHYG Group in the past three years. We have reviewed the agreements entered into between the Group and independent third party clients in relation to securities brokerage services in Hong Kong and overseas markets and noted that the brokerage service fees charged by the Group to the SWHYG Group were no less favourable than those charged by the Group to independent third party clients.



Investment operational supporting services

As advised by the management of the Group, the pricing of the investment operational supporting services is determined based on normal commercial terms with reference to market levels or the actual costs incurred in provision of such services. In the past, the Group charged the SWHYG Group at a fixed percentage of 10% to 20% of the after-tax actual relevant commission earned by the SWHYG Group. We have reviewed the Group's internal pricing policy relating to cross-border investment operational supporting services which, as advised by the management of the Group, has not been changed since 2019 and such pricing policy applies to investment operational supporting services provided to both independent third parties and connected persons. As advised by the management of the Group, the fixed percentages of the after-tax actual relevant commission charged by the Group were no less favourable than the term as stipulated in the Group's internal pricing policy.

Corporate finance services

As advised by the management of the Group, the fees charged by the Group to the SWHYG Group relating to the provision of corporate finance services are determined based on a percentage of the revenue received from third party customers for each project. Those percentages ranged from 8% to 50% in the past, depending on the nature and amount of the work done by the SWHYG Group. As advised by the management of the Group, the Group has not provided any corporate finance services to the SWHYG Group in the past three years. We have reviewed the Group's internal pricing policy relating to cross-border corporate finance services which, as advised by the management of the Group, has not been changed since 2019 and such pricing policy applies to the corporate finance services provided to both independent third parties and connected persons. We noted that the percentages of the revenue as stated in the letter from the Board fall within the range as stipulated in the Group's internal pricing policy.



2.2.1.3 Principal-to-principal transactions of investment products

As advised by the management of the Group, among those financial products, the total return swaps contribute majority of the principal-to-principal trading amounts, which 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. In summary, although large transaction amounts would arise from the principal-to-principal transactions of investment products between the Group and the SWHYG Group, the Group as an agent only earns the handling fees from the clients.

2.3 Our conclusion

Given that (i) the above pricing mechanisms are common and accepted in the financial market and are in compliance with the local laws and regulations; and (ii) we have reviewed and compared samples for transactions conducted with the SWHYG Group and with independent third parties and/or internal pricing policy which applies to both independent transactions and connected transactions, and noted that the Group adopts similar pricing mechanisms for similar services provided/received to/from the SWHYG Group and independent third parties, we are of the view that the transactions contemplated under the 2022 SWHYG MOU shall be conducted on normal commercial terms and thus the prices and terms are fair and reasonable.



3. The Annual Caps

3.1 Historical transaction amounts under the 2019 SWHYG MOU

Set out below are the historical transaction amounts under the 2019 SWHYG MOU as compared to the annual caps under the 2019 SWHYG MOU for the seven months ended 31 December 2019 and the two years ended 31 December 2021.

		Seven months ended 31 December 2019 HK\$'000 (audited)	Year ended 31 December 2020 HK\$'000 (audited)	2021 HK\$'000 (audited)
Services provided by the SWHYG Group to the Group	Annual caps (A)	70,273	131,874	144,381
	Historical transaction amounts (C)	11,811	14,109	7,190
(i) Brokerage services relating to the PRC capital markets	Annual caps	2,102	3,964	4,360
	Historical transaction amounts	167	502	495
(ii) Investment operational supporting services <i>(note)</i>	Annual caps	9,689	18,271	20,098
	Historical transaction amounts	1,835	3,866	6,695
(iii) Research supporting services <i>(note)</i>	Annual caps	13,565	25,579	28,137
	Historical transaction amounts	7,880	9,700	–
(iv) Corporate finance services <i>(note)</i>	Annual caps	44,917	84,060	91,786
	Historical transaction amounts	1,911	41	–
Services provided by the Group to the SWHYG Group	Annual caps (B)	1,242,561	4,156,459	8,207,430
	Historical transaction amounts (D)	26,788	1,043,891	55,185
(i) Brokerage services relating to Hong Kong and overseas capital markets	Annual caps	2,907	5,481	6,029
	Historical transaction amounts	–	–	–
(ii) Investment operational supporting services relating to Hong Kong and overseas capital markets <i>(note)</i>	Annual caps	53,322	100,550	110,605
	Historical transaction amounts	4,357	7,810	22,558
(iii) Corporate finance services <i>(note)</i>	Annual caps	5,928	11,178	12,296
	Historical transaction amounts	–	–	–
Principal-to-principal trading of financial products	Annual caps	1,180,404	4,039,250	8,078,500
	Historical transaction amounts	22,431	1,036,081	32,627



	Seven months ended 31 December 2019 HK\$'000 (audited)	Year ended 31 December 2020 HK\$'000 (audited)	2021 HK\$'000 (audited)
Annual Caps under the 2019 SWHYG MOU (A + B)	1,312,834	4,288,333	8,351,811
Historical transaction amounts under the 2019 SWHYG MOU (C + D)	38,599	1,058,000	62,375

Note: Investment operational supporting services, research supporting services, corporate finance services and investment operational supporting services relating to Hong Kong and overseas capital markets were referred to as supporting services for the PRC market, research services, supporting services in connection with corporate finance business and supporting services relating to Hong Kong and overseas markets and investment advisory services, respectively, under the 2019 SWHYG MOU.

As shown in the above table, for the seven months ended 31 December 2019 and the two years ended 31 December 2021, the utilization rates of the annual caps under the 2019 SWHYG MOU were low. In particular, no transaction amounts were recorded for (i) research supporting services provided by the SWHYG Group to the Group in 2021; (ii) corporate finance services provided by the SWHYG Group to the Group in 2021; (iii) brokerage services relating to Hong Kong and overseas capital markets provided by the Group to the SWHYG Group for the seven months ended 31 December 2019 and in 2020 – 2021; and (iv) corporate finance services provided by the Group to the SWHYG Group for the seven months ended 31 December 2019 and in 2020 – 2021.

Provision of services by the SWHYG Group to the Group

(a) Brokerage services relating to the PRC capital markets

As advised by the management of the Group, in general the frequency and magnitude of transactions relating to brokerage services and supporting services in capital markets depends to a large extent on market sentiments as well as government policies and initiatives. In respect of brokerage services and supporting services for the PRC capital markets, the low utilization rates in 2019 – 2021 were due to the reduced client referrals from the SWHYG Group to the Group and the relatively less demand from the existing clients of the Group for brokerage services relating to the PRC capital markets as, in the past three years, (i) the synergy sharing plan between the SWHYG Group and the Group kept evolving and was still immature; and (ii) the cross-border collaboration arrangement between the SWHYG Group and the Group were subject to review and agreed upon by the parties.



(b) Investment operational supporting services

As advised by the management, although the historical transaction amounts in respect of the investment operational supporting services, which was referred to as supporting services for the PRC market under the 2019 SWHYG MOU from the SWHYG Group increased in 2019 – 2021, its annual cap utilization rates were still low due to the less demand for such services resulting from the low brokerage services transaction amount in the same period as discussed under “(a) Brokerage services relating to the PRC capital markets” within this sub-section above.

(c) Research supporting services

As advised by the management of the Group, the level of research supporting services, which was referred to as research services under the 2019 SWHYG MOU, provided by the SWHYG Group is positively correlated to the level of interests of the Group’s clients in investing in the PRC related markets. The overall market condition of the PRC market was less active after its last peak in 2015 and thus the Group’s clients’ demand for research supporting services on the PRC markets was reduced. As such, the consideration for the research supporting services provided by the SWHYG Group in 2019-2021 were lower than the annual caps set for the same period. As further advised by the management of the Group, nil transaction amount in relation to the research supporting services provided by the SWHYG Group in 2021 was due to the fact that the Group delayed payment to the SWHYG Group for research supporting services rendered in 2021 after commercial discussion between the Group and the SWHYG Group and therefore no research supporting services agreement was signed between the Group and the SWHYG Group in 2021.

(d) Corporate finance services

There were only nominal transactions in respect of corporate finance services, which was referred to as supporting services in connection with corporate finance business under the 2019 SWHYG MOU, provided by the SWHYG Group which mainly covered the aspect of business referrals. Based on our discussion with the management of the Group, the business referrals for corporate finance businesses were meant to cover initial public offerings, mergers and acquisition transactions as well as fund raising projects. As referral fees are only payable upon the completion of execution of the transactions, given that there were only 20 successful referrals with small transaction amounts which were completed in 2019 – 2021, the utilisation rate of the annual caps for the corporate finance services by the SWHYG Group to the Group was lower than expected.



Provision of services by the Group to the SWHYG Group

(a) Brokerage services relating to Hong Kong and overseas capital markets

As advised by the management of the Group, based on their discussions with the SWHYG Group, there was minimal demand from the SWHYG Group's PRC-based investors for shares and products of Hong Kong and overseas capital markets in 2019 – 2021 as the SWHYG Group's wholly-owned subsidiary has been expanding its business in Hong Kong since 2021.

(b) Investment operational supporting services relating to Hong Kong and overseas markets

As advised by the management of the Group, the utilisation rate for the annual caps for those investment operational supporting services relating to Hong Kong and overseas markets, which was referred to as the supporting services relating to Hong Kong and overseas markets and investment advisory services under 2019 SWHYG MOU, was not high as there were still many restrictions being imposed and the pace of relaxation of QDII quotas were slower than anticipated. Notwithstanding, the transaction amount had been on an increasing trend as the SWHYG Group has been promoting the awareness of the Hong Kong market by engaging the Group to provide training, market data and reports. We noted that the Group provided consulting services in relation to, among others, QDII investments to the SWHYG Group in 2019 – 2021, which is in line with the grant of QDII quota by the State Administration of Foreign Exchange of the PRC to the SWHYG Group since 2015.

(c) Corporate finance services

There were only nominal transactions in respect of corporate finance services, which was referred to as supporting services in connection with corporate finance business under the 2019 SWHYG MOU, provided by the Group which mainly covered the aspect of business referrals. Based on our discussion with the management of the Group, the business referrals for corporate finance businesses were meant to cover initial public offerings (“**IPOs**”), mergers and acquisition transactions as well as fund raising projects. As referral fees are only payable upon the completion of execution of the transactions, given that no such transaction was completed during 2019-2021 due to the fact that, as advised by the management of the Group, (i) the Group's corporate finance department experienced significant personnel changes in 2019–2021; (ii) the Group has been focusing on IPOs from traditional industries which were not active in 2019–2021; and (iii) Hong Kong IPO market has changed from exuberance in the 1st half of 2021 to stagnation in the 2nd half of 2021, the utilisation rate of the annual caps for the corporate finance services by the Group to the SWHYG Group was lower than expected.



Principal-to-principal trading of financial products

As advised by the management of the Group, the principal-to-principal trading of financial products has only been in full operation at the end of 2020 when the PRC government approved and granted the quota to the Group for total return swaps, the main trading financial product under this category, which explains the low utilisation rate in 2019–2020. In addition, as further advised by the management of the Group, only the total return swaps’ net gain or loss, which was subject to the market conditions, would be reported as the transaction amounts under this category. Due to the relatively stable market conditions in 2021, the total net gains and losses from the total return swaps was lower than expected. No Bond Connect trades, another financial product under this category, were recorded in 2021 as clients prefer total return swaps over Bond Connects trades after the launch of total return swaps in 2021. The two factors led to the low utilisation rate in 2021.

3.2 Analysis on financial markets and the Group’s business performance

We have discussed with the management of the Group and were advised that they would not only consider the historical transaction amounts but also take into account, amongst others, the historical performance of the PRC and Hong Kong stock markets and the Group’s business performance for a longer horizon. Set out below are (i) Shanghai Composite Index (“**SHCI**”) and Shenzhen Composite Index (“**SZCI**”) and their average daily trading volume in the past ten years; (ii) the Hang Seng Index (“**HSI**”) and its average daily trading volume in the past ten years; and (iii) the Company’s business performance for the three years ended 31 December 2021:

3.2.1 financial markets

PRC financial markets

Graph 1: Shanghai Composite Index and Shenzhen Composite Index





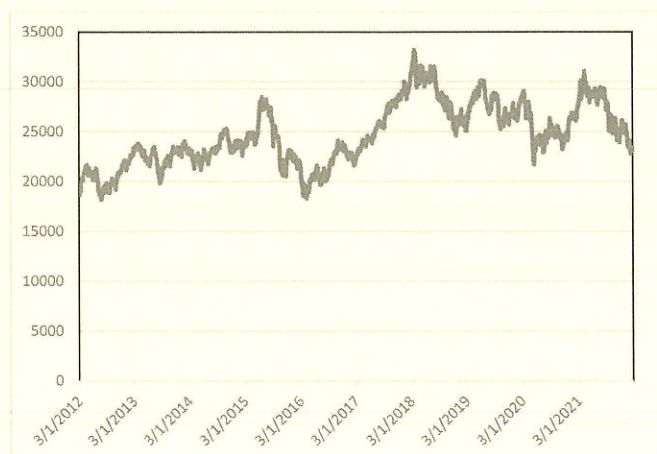
	2012	2013	2014	For the year ended 31 December				2019	2020	2021
				2015	2016	2017	2018			
SHCI										
- Highest closing index	2,461	2,434	3,235	5,166	3,539	3,448	3,559	3,271	3,473	3,715
- Lowest closing index	1,960	1,950	1,991	2,927	2,656	3,053	2,483	2,464	2,660	3,358
Average daily trading volume (RMB billion)	8	11	17	41	18	18	15	22	27	33
SZCI										
- Highest closing index	1,010	1,102	1,504	3,141	2,309	2,047	1,961	1,783	2,333	2,562
- Lowest closing index	734	878	1,007	1,415	1,629	1,774	1,232	1,246	1,609	2,161
Average daily trading volume (RMB billion)	6	9	12	28	20	18	18	30	41	41

Source: Bloomberg

As shown in the above graphs and tables, both the SHCI and SZCI had surged significantly in 2015 reaching their highs of 5,166 and 3,141 in 2015 with average daily turnover of RMB41 billion and RMB28 billion respectively. The PRC stock markets then reversed some of the gains in 2015 and had been hovering in the range of 2,500 to 3,500 (SHCI) and 1,200 to 2,300 (SZCI) in 2016 – 2019. During the same period, the average daily trading volume of the two markets also dropped substantially to RMB15-22 billion (SHCI) and RMB18-30 billion (SZCI). Starting from 2020, both the SHCI and SZCI edged up to reach their highs of 3,715 and 2,562 in 2021. Following the positive growth, the average daily turnover of SHCI has registered positive annual growth rates of 22%-23% in 2020 – 2021 and the average daily turnover of SZCI has surged by 37% in 2020 and continued the high level in 2021.

Hong Kong financial market

Graph 2: Hang Seng Index





For the year ended 31 December

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
HSI										
- Highest closing index	22,667	24,039	25,318	28,443	24,100	30,003	33,154	30,157	29,056	31,085
- Lowest closing index	18,186	19,814	21,182	20,557	18,320	22,134	24,586	25,064	21,696	22,745
Average daily trading volume (HK\$ million)	1,585	1,648	1,658	1,950	1,733	1,822	2,069	1,728	2,140	2,310

Source: Bloomberg

As shown in the above graph and table, HSI hovered around between 18,000 and 25,000 in 2012 – 2014 and then surged to its high of 28,443 in 2015. During the same period, the average daily turnover moved in the same fashion and reached HK\$1,950 million in 2015. Both HSI and its average daily turnover retreated to around 24,000 and HK\$1,733 million in 2016, and then bounced back to reach another high of 33,154 and HK\$2,069 million in 2018. In 2019 – 2021, HSI moved in the range of 21,000 to 31,000, with its average daily trading volume decreasing by 16% to HK\$1,728 million in 2019 but then resuming to reach HK\$2,310 million in 2021.

We are given to understand after our discussion with the management of the Group that it is necessary to formulate a business plan to cater for the possible rallies of both the PRC and Hong Kong stock markets in the years ahead. As shown in the above graphs and tables, the average daily trading volume of SHCI shrank from RMB41 billion in 2015 to RMB15-18 billion in 2016-2018 and gradually picked up in 2019 – 2021 but still failed to reach its high in 2015. The average daily trading volume of SZCI showed similar trend in 2012 – 2018, but managed to surpass the previous high in 2015 to achieve RMB41 billion in 2020 – 2021. Compared to the PRC stock markets, the average daily trading volume of Hong Kong stock market is relatively stable and overall exhibited a positive growth trend. While the Annual Caps are arrived based on the business plans, the management of the Group is of the view that should the proposed caps be determined only based on the historical amounts of the transactions contemplated under the 2019 SWHYG MOU in 2019-2021 during which the PRC stock markets just recovered from the stagnate status in 2016 – 2018 and the Hong Kong stock market exhibited a continued positive growth trend, it would possibly be unduly burdensome for the Company to re-seek the approval for revised annual caps from the Shareholders and the Group might even fail to capture the business opportunities in the possible cyclical upturn and fast-changing financial market.



3.2.2 The Group financial performance

We have also assessed the Group's business activities over the past years and a summary of the operating income of its different business segments as extracted from the 2020 Annual Report and the 2021 Annual Report for financial year ended 31 December 2019, 2020 and 2021 are set out as follows:

Table 1: A summary of operating segment revenue of the Group

Year	Corporate finance		Principal investment		Wealth management		Institutional services and trading		Asset management	
	HK\$'000	YoY change %	HK\$'000	YoY change %	HK\$'000	YoY change %	HK\$'000	YoY change %	HK\$'000	YoY change %
2019	146,229	92%	5,812	n.a.	233,659	-19%	268,487	120%	21,397	-48%
2020	38,840	-73%	5,934	2%	390,341	67%	387,989	45%	12,213	-43%
2021	99,448	156%	1,320	-78%	366,699	-6%	233,971	-40%	28,809	136%

The Group's operation can be largely divided into five segments, namely corporate finance, principal investment, wealth management, institutional services and trading and asset management. The income from corporate finance segment decreased by 73% in 2020 after a surge of 92% in 2019 but then increased again by 156% in 2021. The principal investment segment bounced back from minus HK\$6.8 million in its segment revenue in 2018 (which was due to the realized/unrealised fair value loss of financial assets) to a mild growth in revenue in 2020 but then decreased by 78% in its revenue in 2021. The income from wealth management segment also fluctuated significantly with a 67% increase in its revenue in 2020 after a 19% decrease in 2019 and then decreased by 6% in 2021. The positive growth in institutional services and trading's revenue slowed down from 120% in 2019 to 45% in 2020 and it recorded a decrease in revenue of 40% in 2021. The asset management segment has seen substantial decreases in its revenue in 2019-2020 but improved significantly by registering an increase of 136% in its revenue in 2021.

3.3 Conclusion

Due to the volatility and unpredictableness of the PRC stock markets and Hong Kong stock market as well as the performance of the Group's business segments as discussed above, when determining the proposed Annual Caps for the transactions to be conducted between the Group and the SWHYG Group under the 2022 SWHYG MOU in the next three years, more weight shall be put on the business plan of the Group which has catered for, amongst others, any possible market upturn by making reference to, amongst others, the historical maximum transaction amounts, government policies on financial markets with an aim to ride on the possible cyclical upturn of the markets in the near future, than the historical transaction amounts in the recent years.



3.4 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 ending 31 December 2022 HK\$'000	Year ending 31 December 2023 HK\$'000	31 December 2024 HK\$'000	Five months ending 31 May 2025 HK\$'000
Annual Caps for services relating to SWHYG				
Transactions comprising:				
Services provided by the SWHYG Group to the Group (A)				
Brokerage services relating to the PRC capital markets	90,343	174,888	234,104	152,475
Investment operational supporting services	2,391	4,508	4,959	2,273
Research supporting services	21,131	42,723	80,550	71,871
Corporate finance services	15,747	34,070	48,414	33,583
	51,074	93,587	100,181	44,748
Services provided by the Group to the SWHYG Group (B)				
Brokerage services relating to Hong Kong and overseas capital markets	1,222,219	6,132,755	10,217,991	6,791,179
Investment operational supporting services relating to Hong Kong and overseas markets	2,984	5,627	6,189	2,837
Corporate finance services	29,206	69,728	113,337	90,108
	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 (A + B)	1,312,562	6,307,643	10,452,095	6,986,654



We have discussed with the management of the Group and were advised that the Annual Caps for each category of the services under the 2022 SWHYG MOU have been determined based on the factors discussed below:

Provision of services by the SWHYG Group to the Group

(a) Brokerage services relating to the PRC capital markets

As stated in the letter from the Board, the brokerage services by the SWHYG Group to the Group relating to the PRC capital markets 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. As advised by the management of the Group, the brokerage service fees relating to the PRC capital markets payable to the SWHYG Group are expected to account for approximately 8.5% of non-Hong Kong securities brokerage commission income of the Group after taking into account (i) historical relationship between the brokerage service fees relating to the PRC capital markets and the non-Hong Kong securities brokerage commission income of the Group over the past 3 years; (ii) 2022 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; and (iii) the Group's internal 2022 key performance indicator set for securities brokerage business. In addition, the management of the Group expects the Group will be benefited from the increase in demand for northbound trading in the coming years. According to the annual market statistics report released by Hong Kong Exchanges and Clearing Limited, the northbound trading increased by 31% to RMB27.6 trillion in 2021 as compared to 2020. Based on the Annual Caps projection provided by the Company, the Annual Caps in respect of these services are determined with reference to (i) historical non-Hong Kong securities brokerage commission income of the Group for the year ended 31 December 2021; (ii) the brokerage service fees relating to the PRC capital markets paid to the SWHYG Group accounting for 10% of non-Hong Kong securities brokerage commission income of the Group; and (iii) a projected annual growth rate of 10% given the increasing northbound trading as discussed above.



(b) Investment operational supporting services

As stated in the letter from the Board, the scope of the investment operational supporting services relating to the PRC markets includes 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. As advised by the management of the Group, (i) the investment operational supporting services relating to the PRC markets from the SWHYG Group helps promote the Group's image and expand the Group's customer base in Hong Kong, which in return also requires more investment operational supporting services relating to the PRC markets provided by the SWHYG Group; and (ii) the fees paid for the investment operational supporting services required for the Group's asset management business is expected to grow at an annual growth rate of 150% in the next three years given the recent fast positive growth in the Group's asset management business. According to the 2021 Annual Report, the Group's asset management income increased by 136% in 2021 as compared to 2020. Based on the Annual Caps projection provided by the Company, the Annual Caps in respect of the investment operational supporting services relating to the PRC markets to be provided by the SWHYG Group are determined with reference to (i) historical Hong Kong securities brokerage commission income of the Group for the year ended 31 December 2021 and an annual growth rate of 10%, which is the same as that for the brokerage services relating to the PRC capital markets to be provided by the SWHYG Group to the Group above; (ii) the investment operational supporting service fees relating to the PRC markets payable to the SWYHG Group accounting for 10% of Hong Kong securities brokerage commission income of the Group after taking into account (a) historical relationship between the investment operational supporting service fees relating to the PRC markets and the Hong Kong securities brokerage commission income of the Group; (b) 2022 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; and (c) the Group's demand for investment operational supporting services relating to the PRC markets with reference to the Group's internal 2022 key performance indicators set for securities brokerage business and asset management business; and (iii) the historical investment operational supporting service fees relating to the PRC markets paid to the SWHYG Group for the Group's asset management business and a projected annual growth rate of 150% given the fast positive growth in the Group's asset management business as discussed above.



(c) Research supporting services

As stated in the letter from the Board, the research supporting services by the SWHYG Group to the Group include but 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. As advised by the management of the Group, (i) a substantial portion of its current customers who require securities brokerage services and assets management services from the Group rely on the research supporting services provided by the SWHYG Group; (ii) the fees paid for the research supporting services required for the Group's asset management business is expected to grow at 150%, the same expected annual growth rate for the Group's asset management business as discussed above. Based on the Annual Caps projection provided by the Company, the Annual Caps for the research supporting services by the SWHYG Group to the Group were determined with reference to (i) historical Hong Kong securities brokerage commission income of the Group for the year ended 31 December 2021 and the research supporting service fees paid to the SWHYG Group representing 35% of Hong Kong securities brokerage commission of the Group after taking into account (a) historical research supporting service fees relating to the PRC paid to the SWHYG Group; (b) 2022 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; and (c) the Group's demand for research supporting services relating to the PRC markets with reference to the Group's internal 2022 key performance indicators set for securities brokerage business and asset management business and a projected annual growth rate of 10%, which is the same as that for the brokerage services relating to the PRC capital markets to be provided by the SWHYG Group to the Group as discussed above; (ii) the estimated demand from asset management clients for the research supporting services by the SWHYG Group; and (iii) the historical research supporting service fees paid to the SWHYG Group for the Group's asset management business and a projected annual growth rate of 150% as discussed above.



(d) Corporate finance services

As stated in the letter from the Board, corporate finance services provided by the SWHYG Group to the Group include but not limited to information services and client referrals in connection with corporate finance projects, merger and acquisition projects and financial advisory services. As advised by the management of the Group, provision of corporate finance services by the SWHYG Group is positively correlated with the Group's corporate finance income. Based on the Annual Caps projection provided by the Company, the Annual Caps for the provision of corporate finance services by the SWHYG Group to the Group were determined with reference to (i) historical corporate finance income of the SWHYG Group for the year ended 31 December 2020 and the estimated 1% of such income coming from the supporting services provided to the Group after taking into account (a) historical corporate finance services fees paid to the SWHYG Group; (b) 2022 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; and (c) the Group's demand for corporate finance services with reference to the Group's internal 2022 key performance indicator set for corporate finance business; and (ii) a projected annual growth rate of 10%. We have discussed with the management of the Group on the projection and are advised that the annual growth rate of 10% was determined after having considered the fluctuations of the Group's corporate finance income in 2019-2021 and potential referrals from the SWHYG Group in the coming years.

Provision of services by the Group to the SWHYG Group

(a) Brokerage services relating to Hong Kong and overseas capital markets

As stated in the letter from the Board, the scope of the Group's brokerage services provided to the SWHYG Group include 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.. Based on the Annual Caps projection provided by the Company, the Annual Caps for the brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYG Group are determined with reference to (i) the historical Hong Kong securities brokerage income of the Group of HK\$155 million for the year ended 31 December 2021 and an estimated 10% of such income related to the provision of Hong Kong securities brokerage services to the SWHYG Group after taking into account (a) historical brokerage services fees relating to Hong Kong and overseas capital markets paid by the SWHYG Group to the Group; (b) 2022 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; and (c) the Group's internal 2022 key performance indicator set for securities brokerage business; (ii) the expected revenue sharing arrangement between the Group and the SWHYG Group where the Group would charge the SWHYG Group 30% of the income related to the provision of Hong Kong securities brokerage services to the SWHYG Group as brokerage service fees; and (iii) an annual growth rate of 10% given the Group's strategic plan and internal 2022 key performance indicator set for securities brokerage business as discussed above.



(b) Investment operational supporting services relating to Hong Kong and overseas markets

As stated in the letter from the Board, provision of investment operational supporting services relating to Hong Kong and overseas markets by the Group to the SWHYG Group include but are not limited to products or 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. As advised by the management of the Group, (i) an estimated 15% of the brokerage income of the Group derives from such investment operational supporting services provided to the SWHYG Group after taking into account (a) historical investment operational supporting service fees relating to Hong Kong and overseas markets paid by the SWHYG Group to the Group; (b) 2022 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; and (c) the Group's internal 2022 key performance indicators set for wealth management business and asset management business; and (ii) the investment operational supporting services relating to Hong Kong and overseas markets for asset management business provided to the SWHYG Group is expected to increase at an annual growth rate of 150% in the next three years, which is the same as that for the Group's asset management business as discussed above. Based on the Annual Caps projection provided by the Company, the Annual Caps for the investment operational supporting services relating to Hong Kong and overseas markets by the Group to the SWHYG Group are determined with reference to (i) historical brokerage income of the Group for the year ended 31 December 2021 and an estimated portion of such income coming from provision of investment operational supporting services relating to Hong Kong and overseas markets to the SWHYG Group with a projected annual growth rate of 10% which has been referenced to the Group's strategic plan and the Group's internal 2022 key performance indicators set for wealth management business and asset management business as discussed above; and (ii) the historical fees paid by the SWHYG Group to the Group for the investment operational supporting services relating to asset management business and a projected annual growth rate of 150%, which is the same as that for the Group's asset management business as discussed above.



(c) Corporate finance services

As stated in the letter from the Board, corporate finance services provided by the Group to the SWHYG Group include but limited to, information services and client referrals in connection with corporate finance projects, merger and acquisition business, and financial advisory services. As advised by the management of the Group, 40% of the corporate finance income of the Group is estimated to derive from the provision of corporate finance services to the SWHYG Group after taking into account (a) 2022 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; and (b) the Group's internal 2022 key performance indicator set for corporate finance business. Based on the Annual Caps projection provided by the Company, the Annual Caps for the corporate finance services by the Group to the SWHYG Group are determined with reference to (i) historical corporate finance income of the Group for the year ended 31 December 2021 and the expected portion of such income coming from provision of corporate finance services to the SWHYG Group; and (ii) a projected annual growth rate of 10% given the Group's strategic plan and the Group's internal 2022 key performance indicator set for corporate finance business as discussed above.

Principal-to-principal trading of financial products

As stated in the letter from the Board, the principal-to-principal transactions between the SWHYG Group and the Group include 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. As advised by the management of the Group, among those financial products, the total return swaps contribute majority of the principal-to-principal trading amounts and the principal-to-principal transactions of investment products is expected to increase 100% after taking into consideration (i) principal-to-principal trading of financial products only became full operation at the end of 2020 and achieved an annual growth of 4,519% in 2020; and (ii) the volatility of the market. 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 asset is pass-through to the client. Based on the Annual Caps projection provided by the Company, the Annual Caps for the principal-to-principal trading of financial products are determined with reference to (i) estimated demand from the Group's customers for cross-border financial services; and (ii) a projected annual growth rate of 100% for reasons as discussed above.



3.5 Our conclusion

We have interviewed the management of the Group and obtained the Annual Caps projection prepared by the Company and other factors considered to arrive at the Annual Caps. In summary, we noted that the Group has taken into consideration the following major factors when determining the Annual Caps for the transactions contemplated under the 2022 SWHYG MOU:

- (i) historical transaction amount or historical growth rate of the services under the 2022 SWHYG MOU;
- (ii) historical PRC stock markets performance and Hong Kong stock market performance and their volatility;
- (iii) fluctuations of the operating performance of the Group's business segments in 2019-2021; and
- (iv) 2022 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; and the Group's internal 2022 key performance indicators set for each business segment of the Group.

Given (i) the volatility and unpredictableness of the financial markets and the performance of the Group's business segments; and (ii) the potential business opportunities to be brought by strategic cooperation relationship between the Group and the SWHYG Group and its associates, we consider the Annual Caps based on the factors discussed above to be fair and reasonable.

4. Internal Control

As stated in the letter from the Board, 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, 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 service providers in the market for comparisons of the brokerage rates charged, the supporting service fees, the corporate finance service fees, the asset management service fees 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) as to the brokerage services, according to the Group's internal policy, on an annual basis or more regularly as necessary, the business department of the Group will compare the brokerage rates charged against at least five other independent third party customers which had transacted with the Group for similar transaction values for comparisons of the brokerage rates; (3) as to the supporting services and investment and financial advisory services, according to the Group's internal policy, the reasonableness of the fees charged for provision of such supporting services to the SWHYG Group will be verified by the business department of the Group by reference to the Group's relevant department's judgement of time required for work of similar nature. The Group will also cross check the time-cost rates against the Group's relevant staff's salary rates to ascertain their reasonableness; (4) as to the corporate finance services and research services, according to the Group's internal policy, the responsible business department of the Group will conduct review on an annual basis or more regularly if required to compare the percentage of fees charged with reference to the scope of work performed; (5) as to the total return swaps transactions, the transaction amount will be fully based on the gain and/or loss realised by the clients of the SWHYG Group and the Group only transfers/collects the amount to/from the SWHYG Group on dollar to dollar basis. The responsible business department will monitor the transactions regularly and ensure the transactions are in line with this principle. Therefore, the Directors consider that the Group has no (or minimal, if any) risk exposure in the total return swaps transactions; (6) the reasonableness of the estimated man-days/man-hours for supporting services will be verified by the Group's independent departments (e.g. internal audit, finance department); (7) the Company's auditors and independent non-executive Directors will conduct an annual review in respect of the Continuing Connected Transactions throughout the preceding financial year pursuant to Rules 14A.56 and 14A.55 of the Listing Rules; and (8) 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.

Given (i) our assessment on the pricing mechanism as discussed in the section headed "2.2.1 Pricing mechanism"; and (ii) the internal control measures being similar to those adopted by other Hong Kong listed companies for monitoring continuing connected transactions, we are of the view that the Company has adequate internal control measures in place to ensure the Continuing Connected Transactions are conducted in accordance with the pricing policies under the 2022 SWHYG MOU.



OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the 2022 SWHYG MOU is in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole; and (ii) the terms of the 2022 SWHYG MOU are on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves also recommend, the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the EGM in relation to the transactions contemplated under the 2022 SWHYG MOU.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.