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

If you have sold or transferred all your shares in Shenwan Hongyuan (H.K.) Limited, you should at once hand this circular together with the accompanying proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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

Independent financial adviser to
the Independent Board Committee and the Independent Shareholders



A letter from the Independent Board Committee of Shenwan Hongyuan (H.K.) Limited (the “Company”) is set out on pages 32 and 33 of this circular. A letter from Somerley Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 34 to 62 of this circular.

A notice convening an extraordinary general meeting of the Company (the “EGM”) to be held at Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong, on Monday, 30 May 2022 at 10:00 a.m. is set out on pages 69 to 71 of this circular. Whether or not you are able to attend the EGM, you are advised to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the office of the Company at Level 6, Three Pacific Place, 1 Queen’s Road East, Hong Kong, as soon as possible and in any event not later than 10:00 a.m. on Friday, 27 May 2022. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting if you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Please refer to page 1 of this circular for the precautionary measures to be implemented at the extraordinary general meeting by the Company to protect the attendees from the risk of infection of the COVID-19 pandemic, including:

- compulsory body temperature check
- complying with the requirements of the “Vaccine Pass Direction” which is defined under the Prevention and Control of Disease (Vaccine Pass) Regulation (Cap. 599L of the Laws of Hong Kong)
- every attendee is required to wear surgical face mask
- no refreshment or drinks will be served

Any attendee who (i) refuses to comply with the precautionary measures; or (ii) is subject to the Hong Kong Government’s quarantine requirements or has close contact with any person under quarantine; or (iii) is subject to the Hong Kong Government’s prescribed testing requirement or direction and has not tested negative; or (iv) feels unwell or has any symptoms of COVID-19, will be denied entry into or be required to leave the extraordinary general meeting venue at the absolute discretion of the Company as permitted by law.

Due to the legal restrictions under the Prevention and Control of Disease (Requirements and Directions) (Business and Premises) Regulation (Cap. 599F of the Laws of Hong Kong), the Prevention and Control of Disease (Prohibition on Gathering) Regulation (Cap. 599G of the Laws of Hong Kong) (the “Regulations”) which have been implemented to deal with the risks of COVID-19 pandemic and which limit the number of people permitted for group gatherings in public places (including any meeting of shareholders), it is possible that our shareholders and/or their representatives may not be able to attend in person at the extraordinary general meeting venue depending on prevailing Government Regulations. Shareholders are strongly encouraged to appoint the chairman of the meeting or any Director or the company secretary of the Company as their proxy and to return their forms of proxy by the time specified above, instead of attending the extraordinary general meeting in person.



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PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

To prevent and control the spread of the COVID-19 pandemic, the Company will implement the following precautionary measures at the extraordinary general meeting to protect the attendees from the risk of infection, including:

- a. compulsory body temperature check will be conducted for every shareholder, proxy or other attendee at the entrance of the extraordinary general meeting venue. Any person with a body temperature above the reference range quoted by the Department of Health from time to time may be denied entry into the extraordinary general meeting venue and be requested to leave the extraordinary general meeting venue.
- b. every shareholder, proxy or other attendee is required to comply with the requirements of the “Vaccine Pass Direction”, which is defined under the Prevention and Control of Disease (Vaccine Pass) Regulation (Cap. 599L of the Laws of Hong Kong), prior to entry into the extraordinary general meeting venue.
- c. every shareholder, proxy or other attendee is required to wear surgical mask before they are permitted to attend and during their attendance of the extraordinary general meeting, and to maintain a safe distance between seats. Please note that no masks will be provided at the extraordinary general meeting venue and attendees should bring and wear their own masks.
- d. no refreshment or drinks will be served at the extraordinary general meeting.

Any attendee who (i) refuses to comply with the precautionary measures; or (ii) is subject to the Hong Kong Government’s quarantine requirements or has close contact with any person under quarantine; or (iii) is subject to the Hong Kong Government’s prescribed testing requirement or direction and has not tested negative; or (iv) feels unwell or has any symptoms of COVID-19, will be denied entry into or be required to leave the extraordinary general meeting venue at the absolute discretion of the Company as permitted by law.

Due to the legal restrictions under the Prevention and Control of Disease (Requirements and Directions) (Business and Premises) Regulation (Cap. 599F of the Laws of Hong Kong) and the Prevention and Control of Disease (Prohibition on Gathering) Regulation (Cap. 599G of the Laws of Hong Kong) (the “Regulations”) which have been implemented to deal with the risks of COVID-19 pandemic and which limit the number of people permitted for group gatherings in public places (including any meeting of shareholders), it is possible that our shareholders and/or their representatives may not be able to attend in person at the extraordinary general meeting venue depending on prevailing Government Regulations. Shareholders are strongly encouraged to appoint the Chairman of the meeting or any Director or the company secretary of the Company as their proxy and to return their forms of proxy by the time specified above, instead of attending the extraordinary general meeting in person.

Subject to the development of the COVID-19 pandemic, the Company may be required to change the extraordinary general meeting arrangements at short notice. Shareholders should check the Company’s website for future announcements and updates on the extraordinary general meeting arrangements.

DEFINITIONS

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

“2019 SWHYG MOU”	the memorandum of understanding entered into between the SWHYG and the Company 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 SWHYG and the Company 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 Circular
“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 Chinese Mainland 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, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 00218)
“Connected Person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	SWHYG Transactions

DEFINITIONS

“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong, on Monday, 30 May 2022 at 10: 00 a.m. 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
“Independent Financial Adviser” or “Sommerley Capital”	Sommerley Capital Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities 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
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant matters at the EGM
“Latest Practicable Date”	6 May 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time

DEFINITIONS

“Mutual Recognition of Hong Kong and China Fund Programs”	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)
“Offshore Investors Schemes”	the schemes under which offshore investors are permitted to invest directly in the PRC capital markets (subject to relevant authorities’ approvals)
“Onshore Investors Schemes”	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)
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Previous Annual Caps”	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
“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

DEFINITIONS

“RQDII”	the Renminbi qualified domestic 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
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shanghai-Hong Kong Stock Connect”	is a cross-boundary investment channel that connects the Shanghai Stock Exchange and the Stock Exchange
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	shareholder(s) 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 on 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 the 2022 SWHYG MOU
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers approved by the securities and Futures Commission as amended from time to time
“%”	per cent

LETTER FROM THE BOARD



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)

Executive Directors:

Ms. Wu Meng (*Chairman*)

Mr. Zhang Jian

Mr. Liang Jun (*Chief Executive Officer*)

Registered office:

Level 19

28 Hennessy Road

Hong Kong

Non-executive Director:

Mr. Zhang Lei

Independent non-executive Directors:

Mr. Ng Wing Hang Patrick

Mr. Kwok Lam Kwong Larry

Mr. Chen Liqiang

13 May 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

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 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.

LETTER FROM THE BOARD

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.

The purpose of this circular is to provide you with, among other things, (i) further details of the Continuing Connected Transactions; (ii) a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders on the Continuing Connected Transactions and the Annual Caps; (iii) a letter from Somerley Capital Limited, the independent financial adviser, to the Independent Board Committee and the Independent Shareholders setting out its opinion on the Continuing Connected Transactions and the Annual Caps; and (iv) a notice of the EGM.

2. 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;

LETTER FROM THE BOARD

- (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 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, 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.

LETTER FROM THE BOARD

- (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.

LETTER FROM THE BOARD

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 crossborder financial service, and other types of legal compliance advisory services.

LETTER FROM THE BOARD

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.

Among all of these debt securities and structured products, it is expected that the vast majority (above 95%) of the transactions will be total return swaps transactions. The total return swap can be categorized into southbound and northbound.

1. For southbound transactions, the Group will enter into a pair of transactions. The Group will trade a total return swap on the onshore underlying asset with the SWHYG Group. On the other hand, for hedging purpose, the Group might acquire the offshore underlying asset or trade a total return swap with offshore counterparty. The net gain or loss attributable to the client of the SWHYG Group in this trading will be borne by such onshore client and recorded in the Group's financial statement on a net basis. The netted gain or loss on the underlying assets in the Group's financial statement will be zero. The Group will also record the interest income and handling fee income generated from this trade in its financial statements.
2. For northbound transactions, the Group will enter into a pair of transactions. The Group will trade a total return swap on the underlying asset with the offshore client. On the other hand, the Group will trade a total return swap on the onshore underlying asset with the SWHYG Group. The net gain or loss attributable to the client of the Group in this trading will be borne by such offshore client and recorded in the Group's financial statement on a net basis. The netted gain or loss on the underlying assets in the Group's financial statement will be zero. The Group will also record the interest income and handling fee income generated from this trade in its financial statements.

LETTER FROM THE BOARD

Such principal-to-principal transactions was introduced in 2020 and the Company expected that there will be an increasing demand for such cross-border investment products transactions due to the business development of the Group. The Group's business relationship with the SWHYG Group will get closer due to various reasons such as (1) the increased shareholding interest in the Group directly held by the SWHYG Group, and (2) the increasing demand of cross-border investment products by the customers of the SWHYG Group and the Group.

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 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) Brokerage services transactions

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.

LETTER FROM THE BOARD

The brokerage fees to be charged by the SWHYG Group to the Group relating to provision of brokerage services in connection with the PRC capital markets will be based on normal commercial principles including individual negotiation with reference to prevailing market rates and actual circumstances, and the most favourable rates charged by the SWHYG Group to its existing clients. The pricing policy will be based on a fixed percentage (0.05%-0.10%) of the gross consideration of clients' trade turnover. Such fixed percentage will be the most favourable rates charged by the SWHYG Group to its existing clients.

The brokerage fees to be charged by the Group to the SWHYG Group relating to the brokerage services for Hong Kong and overseas capital markets will be determined based on normal commercial principles including individual negotiation with reference to market levels and actual circumstances, and the prevailing market rates charged by the Group to its existing clients. Fees shall be based on a fixed percentage (0.03%-0.2%) of the gross consideration of clients' trade turnover with reference to market levels and actual circumstances, and the prevailing market rates charged by the Group to its existing clients.

(2) 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 PRC market 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 fee charged with reference to the scope of work performed.

LETTER FROM THE BOARD

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. The reasonableness of the fee charged for provision of such investment management and advisory services to the SWHYG Group will be verified by the responsible business department of the Group by reference to the Group's relevant department's judgment of time required for work of similar nature and the time-cost rates of the staff to be involved.

(3) *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. 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 fee charged with reference to the scope of work performed.

(4) *Corporate finance transactions*

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. The pricing policy will be based on a fixed percentage (8%-50%) of the revenue from third party customers for each project. Such fixed percentage will vary from one project to another depending on the amount of work performed by the SWHYG Group or the Group (as the case may be) and will be agreed in writing.

LETTER FROM THE BOARD

(5) *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.

Following the Group's internal control policy, the responsible business department of the Group will, on an annual basis or more regularly as necessary, refer to similar bonds traded over-the-counter or structured products purchased or sold by the Group to determine the commercial terms and the market price of the debt securities and the structured products. Such information collected will form part of the pricing basis of such debt securities and the structured products, or a reference to determine the mark-up margin for tailor-made products which will be priced on cost-plus basis.

For total return swap transactions, the Group will only conduct total return swap transactions on a back-to-back basis, which transaction amount 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 a handling fee for such transactions.

Having considered the pricing policy, we are satisfied that this is a fair and reasonable basis upon which to price these transactions and is in line with the internal control policy of the Group governing these transactions.

LETTER FROM THE BOARD

3. PREVIOUS ANNUAL CAPS

Set out below are the Previous Annual Caps:

	Seven months ended 31 December 2019 <i>HK\$'000</i>	Year ended 31 December		Five months ended 31 May 2022 <i>HK\$'000</i>
		2020 <i>HK\$'000</i>	2021 <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

LETTER FROM THE BOARD

4. HISTORICAL TRANSACTION AMOUNTS

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:

	Seven months ended 31 December 2019 <i>HK\$'000</i> (Audited)	Year ended 31 December 2020 <i>HK\$'000</i> (Audited)	December 2021 <i>HK\$'000</i> (Audited)	Three months ended 31 March 2022 <i>HK\$'000</i> (Unaudited)
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	1,251
(i) Brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	167	502	495	71
(ii) Supporting services for the PRC market from the SWHYG Group to the Group	1,853	3,866	6,695	1,180
(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	8,600
(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	2,249
(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	6,351
Total historical transaction amounts	38,599	1,058,000	62,375	9,851

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The decrease or increase in the historical transaction amounts of the transactions under the 2019 SWHYG MOU above-mentioned are mainly due to the following reasons:

- a) due to repeated resurgence of COVID-19 pandemic, with the emergence of the Delta variant at the beginning of 2021, followed by the Omicron variant at the end of the year, it had rapidly led to a more complicated situation of the global pandemic and it remained difficult for the global service industry to recover. Thus, it led to a significant decrease in historical transaction amounts of certain services between the Group and the SWHYG Group;
- b) the demand from the SWHYG Group's PRC-based investors for shares and products of Hong Kong and overseas capital markets during the period from 2019 to 2021 was minimal as the SWHYG Group was actively expanding its business in Hong Kong since 2021 through one of its wholly-owned subsidiaries;
- c) as referral fees are only payable upon the completion of the corporate finance transaction, but no such transaction was completed during the period from 2019 to 2021. As a result, nil was recorded in the supporting services in connection with corporate finance business between the Group and the SWHYG Group;
- d) consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by the SWHYG Group increased due to a higher demand of such supporting services provided by the Group to the SWHYG Group as well as a quicker expansion of its offices in Hong Kong (a licence agreement was signed between the Group and the SWHYG Group for its Hong Kong office which was disclosed in the Company's announcement dated 18 August 2021) and overseas;
- e) the low utilization rate of the Previous Annual Caps for the above-mentioned categories was due to the nature of the services provided by or received from the Group or the SWHYG Group or transactions entered between the Group and the SWHYG Group (as the case may be) that large fraction of the previous annual caps were prepared to make provision against the potential demand for investment and the financing needs of the clients of the SWHYG Group in the PRC and the Group in Hong Kong and/or overseas. The actual utilization rate is subject to the then market conditions, investment strategies and opportunities appeared in the market and accordingly the historical low utilization rate is intelligible. Notwithstanding of the low utilization rate of the annual caps for some of the sub-category services and transactions in the past, the Company considers that it is necessary to maintain the same or higher proposed annual caps for the period from 2022 to 2025 in light of the proposed expansion of business activities due to the increase in possible demand for cross-border trading and services; and

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f) with respect to principal-to-principal transactions, the notional amount of the Bond Connect trade is recorded for the annual caps. However, for the total return swaps, only the net gain or loss attributable to the clients (instead of the notional amount) of the transaction is recorded. In 2020, the reported transaction amount was mainly generated from the Bond Connect trade between the SWHYG Group and the Group. As we mentioned in the Company's circular dated 30 April 2019, it was expected that the vast majority of the principal-to-principal trading would be total return swaps. For the principal-to-principal trading of the financial products executed throughout the year of 2021, due to the clients' preference in total return swaps, no Bond Connect trades were executed. Thus, there was a significant decrease in the transaction amount in 2021 as compared to 2020 under the principal-to-principal transactions category.

5. 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 ended 31 December 2022 <i>HK\$'000</i>	Year ended 31 December 2023 <i>HK\$'000</i>		Five months Ending 31 May 2025 <i>HK\$'000</i>
		31 December 2024 <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 from the SWHYG Group to the Group	21,131	42,723	80,550	71,871
(iii) Research supporting services from the SWHYG Group to the Group	15,747	34,070	48,414	33,583
(iv) Corporate finance services 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 services 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

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6. 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; (iii) the estimated annual growth rate of 10% in service fees taking into account of the anticipated growth of the PRC capital markets; and (iv) the expected brokerage commission expenses payable to the SWHYG Group which amounts to approximately 8.5% of non-Hong Kong securities commission income taking into account of the non-Hong Kong securities commission income of HK\$44 million recorded in the audited financial statements of the Group for the year ended 31 December 2021.

Investment operational supporting services 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 of the expected rise in demand for such services from the Group, the increase in costs due to inflation and the Hong Kong securities commission income of HK\$155 million recorded in the audited financial statements of the Group for the year ended 31 December 2021; (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

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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 of the fast positive growth of asset management business of the Group and business collaboration between the SWHYG Group and the Group and the actual amount of investment advisory service fee and business collaboration service fee payable to the SWHYG Group for the year ended 31 December 2021 of approximately HK\$5.6 million.

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 Scheme (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, RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect; (ii) the estimated annual growth rate of approximately 10% in service fees taking into account of the anticipated growth in demand for such services; (iii) the estimated 10% of Hong Kong securities commission income which will be contributed from the SWHYG Group taking into account of the Hong Kong securities commission income of HK\$155 million recorded in the audited financial statements of the Group for the year ended 31 December 2021; and (iv) the estimated revenue sharing ratio of 10% of brokerage services for Hong Kong and overseas capital markets provided by the Group.

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. 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.

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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 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; and (iii) the estimated annual growth rate of 10% in service fees taking into account of the expected rise in demand for such services from the Group and the increase in costs due to inflation. In view of the above, it is expected that the investment operational supporting services will be accounted for 15% of the total commission income of the Group each year with reference to the total commission revenue of approximately HK\$240 million of the Group in 2021.

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.

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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 of the expected rise in demand for such services from the Group and the increase in costs due to inflation. Based on the above, we have reviewed the calculation of the maximum fees for the supporting services relating to research of approximately HK\$15.7 million, approximately HK\$34.1 million, approximately HK\$48.4 million and approximately HK\$33.6 million 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 respectively.

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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 the 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 of 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. We have also considered the following factors in determining the Annual Caps in relation to corporate finance services between the Group and the SWHYG Group: (i) the potential corporate finance projects involving both the Group and the SWHYG Group in the coming three years; (ii) the possibility of the Group to act as the placing agent for the potential placements of SWHYG Group's H-shares under its general mandate; (iii) the Group's potential participation in SWHYG Group's offshore bond issuance as an underwriter; (iv) the total corporate finance income of the SWHYG Group in 2020 of HK\$2,265 million; and (v) the estimated annual growth rate of 10% in referral fees for the debt capital market projects.

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

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- (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. In 2021, 74 total return swaps transactions had been executed with a total transacted notional amount over HK\$49 billion. As such business is rapidly growing and the expected growth rate of the principal-to-principal trading is 100%, it is assumed that the notional amount of the total return swaps could reach to HK\$ 100 billion in 2023. Assuming the net gain or loss of the total notional amounts of the expected total return swaps is 1% which is one of the estimated lowest rate, HK\$ 1 billion would be recorded in the proposed annual caps, which accounts for approximately 17% of the Annual Caps in 2023. Due to the fluctuations of the net gain or loss of the total return swaps, a larger transaction amount is expected to be recorded. Thus, as more total return swaps are expected in the coming years, a higher Annual Caps for the transactions between the Group and the SWHYG Group for the period from 2022 to 2025 is needed.

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 of 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.

Other than the factors mentioned above, the Company also believes that it is necessary to maintain the same or higher Annual Caps for the period from 2022 to 2025 as compared to the Previous Annual Caps under 2019 SWHYG MOU, after considering the following factors:

- a) strategic plan of the Group in the coming years which aims to deepen the cross-border cooperation between the Group and the SWHYG Group in order to actively maximize the advantages of the Group and the SWHYG Group and to provide clients with comprehensive and diversified integrated financial services;

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Under the new development pattern of “dual circulation” strategy in China, the Group, as the most important business center and execution platform based in Hong Kong for SWHYG Group’s overseas and cross-border business, will continue to fully leverage the advantages and competitiveness of resources abroad, actively respond to serve the national development strategies, vigorously expand its cross-border business and further enhance market influence; and

- b) continuing cooperation and collaboration with domestic securities firms in the PRC to open up a two-way north-south cross-border channel.

Therefore, we believe that the Annual Caps of the principal-to-principal trading between the SWHYG Group and the Group is fair and reasonable.

7. 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, 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.

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- (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 fee 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 fee 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) 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).

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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.

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.

By implementing the above procedures, the Directors consider that the Group has established sufficient internal control reviewing and monitoring measures to ensure the pricing basis of each of the Continuing Connected Transactions will be on market terms and on normal commercial terms and will be fair and reasonable to the Group and the Shareholders as a whole.

8. 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 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 Group. 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.

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9. 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.

10. LISTING RULES AND IMPLICATIONS

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 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, as each of Ms. Wu Meng, Mr. Guo Chun (the then director), Mr. Zhang Jian and Mr. Liang Jun is also a director or officer (as the case may be) of certain members of SWHYG Group and they were considered as potentially having a material interest in the SWHYG Transactions and they voluntarily abstained from voting on the relevant Board resolutions approving the 2022 SWHYG MOU and related matters.

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11. GENERAL

The Directors consider that the Continuing Connected 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.

The Company proposes to seek approval from the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps at the EGM. Voting at the EGM will be conducted by poll. SWHYG and its associates who in aggregate control or are entitled to exercise control over the voting right in respect of 1,170,808,569 Shares, representing approximately 75.0% of total Shares in issue as at the Latest Practicable Date, shall abstain from voting at the EGM in respect of the Continuing Connected Transactions as well as the Annual Caps. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, none of the other Shareholders will be required to abstain from voting at the EGM in respect of the Continuing Connected Transactions as well as the Annual Caps.

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.

Somerley Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

12. THE EGM AND THE NOTICE

A notice convening the EGM to be held at Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong, on Monday, 30 May 2022 at 10:00 a.m. is set out on pages 69 to 71 of this circular.

A proxy form for use at the EGM is enclosed herewith and is also published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.swhyhk.com>). Whether or not you are able to attend the EGM, you are advised to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the office of the Company at Level 6, Three Pacific Place, 1 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 10:00 a.m. on Friday, 27 May 2022. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjourned meeting if you so wish.

LETTER FROM THE BOARD

13. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM must be taken by poll. The chairman of the EGM will demand a poll for the resolutions to be proposed at the EGM in accordance with the articles of association of the Company. The results of the voting will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.swhyhk.com>) after the conclusion of the EGM.

14. RECOMMENDATION

You are advised to read carefully the letter from the Independent Board Committee set out on pages 32 and 33 of this circular. The Independent Board Committee, having taken into account the advice of Somerley Capital, the text of which is set out on pages 34 to 62 of this circular, considers that (i) the Continuing Connected Transactions contemplated under the 2022 SWHYG MOU fall in the ordinary and usual course of business of the Group; (ii) the 2022 SWHYG MOU is in the interests of the Group and the Shareholders as a whole; (iii) the terms of the 2022 SWHYG MOU are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; and (iv) the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2022 SWHYG MOU and the transactions contemplated thereunder as well as the Annual Caps.

15. ADDITIONAL INFORMATION

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

Yours faithfully,

By order of the Board

Shenwan Hongyuan (H.K.) Limited

Liang Jun

Executive Director and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee to the Independent Shareholders for the inclusion in this circular.



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)

13 May 2022

To the Independent Shareholders
Shenwan Hongyuan (H.K.) Limited

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 13 May 2022 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the 2022 SWHYG MOU, the terms of the transactions contemplated thereunder as well as the Annual Caps and to advise the Independent Shareholders whether, in our opinion, the terms of the 2022 SWHYG MOU, the terms of the transactions contemplated thereunder as well as 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. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 34 to 62 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the advice given by, and the principal factors and reasons taken into consideration by Somerley Capital in arriving at its advice, we consider that (i) the Continuing Connected Transactions contemplated under the 2022 SWHYG MOU fall in the ordinary and usual course of business of the Group; (ii) the 2022 SWHYG MOU is in the interests of the Company and the Shareholders as a whole; (iii) the terms of the 2022 SWHYG MOU are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; and (iv) the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2022 SWHYG MOU and the transactions contemplated thereunder as well as the Annual Caps.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Ng Wing Hang Patrick
*Independent non-executive
Director*

Kwok Lam Kwong Larry
*Independent non-executive
Director*

Chen Liqiang
*Independent non-executive
Director*

LETTER FROM SOMERLEY CAPITAL LIMITED

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

SOMERLEY CAPITAL LIMITED

20th Floor

China Building

29 Queen's Road Central

Hong Kong

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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>

LETTER FROM SOMERLEY CAPITAL LIMITED

- (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.

LETTER FROM SOMERLEY CAPITAL LIMITED

- (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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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

LETTER FROM SOMERLEY CAPITAL LIMITED

	Seven months ended 31 December	Year ended 31 December	
	2019 <i>HK\$'000</i> (audited)	2020 <i>HK\$'000</i> (audited)	2021 <i>HK\$'000</i> (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.

LETTER FROM SOMERLEY CAPITAL LIMITED

(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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

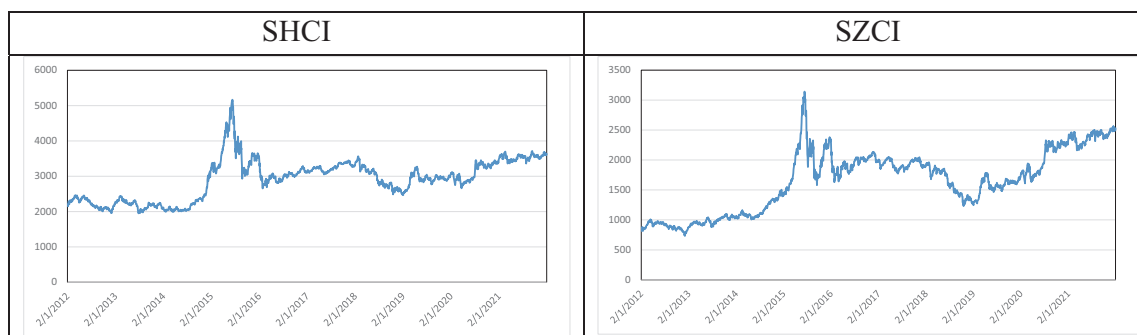
3.2 Analysis on financial markets and the Group’s business performance

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



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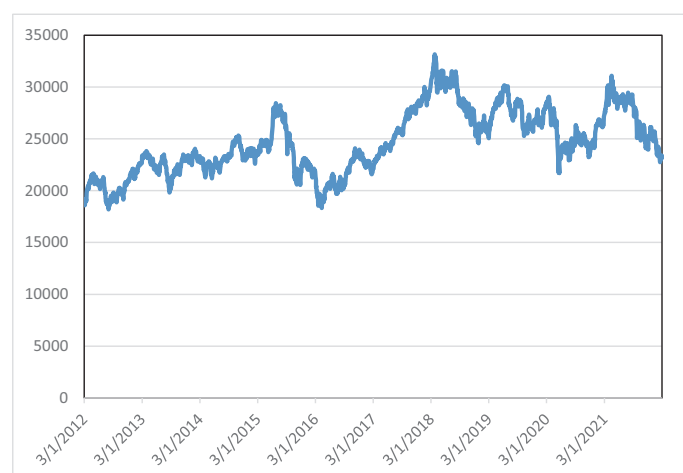
	For the year ended 31 December									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
SHCI										
– Highest closing index	2,461	2,434	3,235	5,166	3,539	3,448	3,559	3,271	3,473	3,715
– Lowest closing index	1,960	1,950	1,991	2,927	2,656	3,053	2,483	2,464	2,660	3,358
Average daily trading volume (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



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	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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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 2024 HK\$'000 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)	90,343	174,888	234,104	152,475
Brokerage services relating to the PRC capital markets	2,391	4,508	4,959	2,273
Investment operational supporting services	21,131	42,723	80,550	71,871
Research supporting services	15,747	34,070	48,414	33,583
Corporate finance services	51,074	93,587	100,181	44,748
Services provided by the Group to the SWHYG Group (B)	1,222,219	6,132,755	10,217,991	6,791,179
Brokerage services relating to Hong Kong and overseas capital markets	2,984	5,627	6,189	2,837
Investment operational supporting services relating to Hong Kong and overseas markets	29,206	69,728	113,337	90,108
Corporate finance services	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

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

(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.

LETTER FROM SOMERLEY CAPITAL LIMITED

(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.

LETTER FROM SOMERLEY CAPITAL LIMITED

(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.

LETTER FROM SOMERLEY CAPITAL LIMITED

- (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.

LETTER FROM SOMERLEY CAPITAL LIMITED

(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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

LETTER FROM SOMERLEY CAPITAL LIMITED

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.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVE IN THE COMPANY

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company was taken to be interested or deemed to have any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at the Latest Practicable Date, so far as any Directors are aware of based on the disclosure of interest filings notified to the Company or revealed from public records, persons (other than the Directors or chief executive of the Company) who were taken or deemed to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register (the “**Section 336 Register**”) maintained by the Company pursuant to section 336 of the SFO, were as follows:

Name of Shareholders	Capacity and nature of interests	Long positions in Shares and underlying Shares	Shareholding percentage (%) <i>(Note 1)</i>
Shenwan Hongyuan Holdings (B.V.I.) Limited (“ SWHYHBVI ”)	Directly beneficially owned	402,502,312 <i>(Note 2)</i>	25.78
Shenwan Hongyuan (International) Holdings Limited (“ SWHY International ”)	Through controlled corporation	402,502,312 <i>(Note 2)</i>	25.78
	Directly beneficially owned	768,306,257 <i>(Note 3)</i>	49.22
Shenwan Hongyuan Securities Co., Ltd. (“ SWHYSC ”)	Through controlled Corporation	1,170,808,569 <i>(Notes 2 and 3)</i>	75.00
SWHYG	Through controlled corporation	1,170,808,569 <i>(Notes 2 and 3)</i>	75.00

Notes:

- The percentages are calculated based on the total number of 1,561,138,689 issued Shares as at the Latest Practicable Date.
- SWHYHBVI is held directly as to 60.82% by SWHY International. SWHY International is wholly-owned by SWHYSC which is in turn a wholly-owned subsidiary of SWHYG. Hence, SWHY International, SWHYSC and SWHYG are deemed to be interested in the same parcel of 402,502,312 Shares held by SWHYHBVI under the SFO.
- By virtue of the relationship among SWHY International, SWHYSC and SWHYG as set out in Note 2 above, SWHYSC and SWHYG are also deemed to be interested in the same parcel of 768,306,257 Shares held by SWHY International under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any persons who had interests or short positions in the Shares or underlying Shares which were disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the Section 336 Register.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contracts with any member of the Group (which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, the following Directors were considered to have interests in the businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group:

Name of Director	Name of entity	Nature of interest of the Director in the entity	Description of business of the entity
Ms. Wu Meng	Shenwan Hongyuan Securities Co., Ltd.	Member of the Executive Committee General Manager of the International Business Division	Securities business
	SWS Research Co., Ltd.	Director	Securities research and consulting business
	Shenwan Hongyuan Financing Services Co., Ltd.	Director	Securities underwriting, sponsoring and financial advisory businesses
	Shenwan Hongyuan (International) Holdings Limited	Chairman and General Manager	Investment holding company and through its wholly-owned subsidiary, Shenwan Hongyuan Singapore Private Limited, engages in securities brokerage business and fund management
Mr. Zhang Jian	Shenwan Hongyuan Securities Co., Ltd.	Deputy General Manager	Securities business
	Shenwan Hongyuan Financing Services Co., Ltd.	Chairman	Securities underwriting, sponsoring and financial advisory businesses

Name of Director	Name of entity	Nature of interest of the Director in the entity	Description of business of the entity
	Shenwan Hongyuan (International) Holdings Limited	Director	Investment holding company and through its wholly-owned subsidiary, Shenwan Hongyuan Singapore Private Limited, engages in securities brokerage business and fund management
Mr. Liang Jun	Shenwan Hongyuan (International) Holdings Limited	Deputy General Manager	Investment holding company and through its wholly-owned subsidiary, Shenwan Hongyuan Singapore Private Limited, engages in securities brokerage business and fund management
Mr. Zhang Lei	SICC Asset Management Company Limited	Director and Responsible Officer	Provision of asset management services
Mr. Kwok Lam Kwong Larry	First Shanghai Investments Limited	Non-executive Director	Financial services, direct investments, property and hotel development
	CMB Wing Lung Bank Limited	Independent Non-executive Director	Provision of banking and related financial services

6. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS OF THE GROUP

Save as disclosed, as at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Somerley Capital Limited	a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been acquired by, disposed of by or leased to any member of the Group, or which are proposed to be acquired by, disposed of by or leased to any member of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up).

The letter of advice from Somerley Capital is given as of the date of this circular for incorporation herein.

10. CORPORATE INFORMATION OF THE GROUP

- (a) The company secretary of the Company is Mr. Wong Che Keung Leslie, who is a Fellow of the Hong Kong Institute of Certified Public Accountants.
- (b) The share registrar of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The address of registered office of the Company is Level 19, 28 Hennessy Road, Hong Kong.

11. MISCELLANEOUS

The English text of this circular and the accompanying proxy form shall prevail over the Chinese text thereof in the case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.swhyhk.com>) from the date of this circular up to and including the date of the EGM:

- (a) the 2022 SWHYG MOU;
- (b) the articles of association of the Company;
- (c) the written consent of expert mentioned in the Expert and Consent section of this Appendix;
- (d) 2020 and 2021 annual reports of the Company;
- (e) 2020 and 2021 interim reports of the Company;
- (f) the "Letter from the Board", the text of which is set out on pages 6 to 31 of this circular;
- (g) the "Letter from the Independent Board Committee", the text of which is set out on pages 32 and 33 of this circular;
- (h) the "Letter from the Independent Financial Adviser", the text of which is set out on pages 34 to 62 of this circular; and
- (i) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Shenwan Hongyuan (H.K.) Limited (the “**Company**”) will be held at Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong, on Monday, 30 May 2022 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the memorandum of understanding (“**2022 SWHYG MOU**”) entered into between Shenwan Hongyuan Group Co., Ltd. and the Company (a copy of which has been produced to the meeting marked “A” and initialled by the chairman of the meeting for identification purpose) in relation to the continuing connected transactions (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”)) and all the transactions contemplated thereunder as well as the proposed annual caps for the transactions contemplated under the 2022 SWHYG MOU 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 more particularly set out in the circular of the Company dated 13 May 2022 be and are hereby approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the directors (the “**Directors**” and each a “**Director**”) of the Company be and are hereby generally and unconditionally authorised to do all such acts or things and execute and deliver all such documents, instruments and agreements which they consider necessary, desirable or expedient to give effect to the transactions contemplated under the 2022 SWHYG MOU, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company and in accordance with the Listing Rules (where relevant).”

By order of the Board
Shenwan Hongyuan (H.K.) Limited
Wong Che Keung Leslie
Company Secretary

Hong Kong, 13 May 2022

As at the date of this notice, the board of directors of the Company 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.

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy(ies) to attend and, subject to the provisions of the articles of association of the Company, vote on his behalf. A proxy need not be a member of the Company.
2. In order to be valid, a proxy form must be deposited together with the power of attorney or other authority, if any, under which it is signed or a notorially certified copy of that power of attorney or authority, at the office of the Company at Level 6, Three Pacific Place, 1 Queen’s Road East, Hong Kong not later than 10:00 a.m. on Friday, 27 May 2022.
3. Completion and delivery of the proxy form will not preclude you from attending and voting at the meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto; and if more than one of such joint holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. The ordinary resolution(s) to be considered at the meeting will be decided by poll.
6. In case the general meeting is anticipated to be affected by black rainstorm or tropical cyclone with warning signal No. 8 or above, please refer to the website of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk> and the Company’s website at <http://www.swhyhk.com> for announcement on bad weather arrangement for the general meeting.

NOTICE OF EXTRAORDINARY GENERAL MEETING

7. To prevent and control the spread of the COVID-19 pandemic, the Company will implement the following precautionary measures at the extraordinary general meeting to protect our shareholders from the risk of infection:
- a. compulsory body temperature check will be conducted for every shareholder, proxy or other attendee at the entrance of the extraordinary general meeting venue. Any person with a body temperature above the reference range quoted by the Department of Health from time to time may be denied entry into the extraordinary general meeting venue and be requested to leave the extraordinary general meeting venue.
 - b. every shareholder, proxy or other attendee is required to comply with the requirements of the “Vaccine Pass Direction”, which is defined under the Prevention and Control of Disease (Vaccine Pass) Regulation (Cap. 599L of the Laws of Hong Kong), prior to entry into the extraordinary general meeting venue.
 - c. every shareholder, proxy or other attendee is required to wear surgical mask before they are permitted to attend and during their attendance of the extraordinary general meeting, and to maintain a safe distance between seats. Please note that no masks will be provided at the extraordinary general meeting venue and attendees should bring and wear their own masks.
 - d. No refreshment or drinks will be served at the extraordinary general meeting.

Any attendee who (i) refuses to comply with the precautionary measures; or (ii) is subject to the Hong Kong Government’s quarantine requirements or has close contact with any person under quarantine; or (iii) is subject to the Hong Kong Government’s prescribed testing requirement or direction and has not tested negative; or (iv) feels unwell or has any symptoms of COVID-19, will be denied entry into or be required to leave the extraordinary general meeting venue at the absolute discretion of the Company as permitted by law.

Subject to the development of the COVID-19 pandemic, the Company may be required to change the extraordinary general meeting arrangements at short notice. Shareholders should check the Company’s website for future announcements and updates on the extraordinary general meeting arrangements.