



# SOMERLEY CAPITAL LIMITED

20/F., China Building, 29 Queen's Road Central, Hong Kong

Telephone: 2869 9090

Fax: 2526 2032

E-Mail: [somerley@somerley.com.hk](mailto:somerley@somerley.com.hk)

12 August 2025

*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 the 2025 SWHYG MOU and the Annual Caps. Details of the 2025 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 12 August 2025 (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 64.9% 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 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 2025 SWHYG MOU is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the three (3) independent non-executive Directors, namely Mr. Kwok Lam Kwong Larry, Mr. Liu Chijin and Ms. Chiu Lai Kuen Susanna, has been formed to advise the Independent Shareholders on 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 Capital 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 Capital has been engaged as the independent financial adviser in the past two years, please refer to SWHYG’s announcement dated 26 November 2024. The IFA Engagement was limited to providing independent financial advisory services to SWHYG pursuant to the Listing Rules, and Somerley Capital, in return, has received fixed normal advisory fees from it. Somerley Capital 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 potential and/or actual a conflict of interest in acting as the independent financial adviser regarding the 2025 SWHYG MOU.

We are not associated with the Company, the 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, the SWHYG Group or their respective substantial shareholders or associates.

In formulating our opinion, we have reviewed, among others, the 2025 SWHYG MOU, the annual reports of the Company for the years ended 31 December 2023 (the “**2023 Annual Report**”) and 2024 (the “**2024 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 Introduction***

The continuing connected transactions contemplated under the 2022 SWHYG MOU were approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 30 May 2022. The 2022 SWHYG MOU was expired on 31 May 2025.

On 5 August 2025, the Company entered into the 2025 SWHYG MOU with SWHYG in relation to SWHYG Transactions to replace the 2022 SWHYG MOU. The 2025 SWHYG MOU shall be effective from 1 September 2025 or upon obtaining of the approval of the Independent Shareholders at the EGM and shall expire on 31 May 2028.

## ***1.3 The scope of services under the 2025 SWHYG MOU***

The services provided by the SWHYG Group to the Group include (i) brokerage services; (ii) investment operational supporting services; (iii) research supporting services; and (iv) corporate finance services. The services provided by the Group to the SWHYG Group include (i) brokerage services; (ii) investment operational supporting services; and (iii) corporate finance services. In addition, the scope of services under the 2025 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 2025 SWHYG MOU is generally the same as that under the 2022 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 2025 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 2025 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 2025 SWHYG MOU is in the interests of the Company and the Shareholders as a whole.

## **2. Principal terms of the 2025 SWHYG MOU and pricing basis**

### ***2.1 Principal terms and pricing basis***

The principal terms of the 2025 SWHYG MOU and the pricing basis of each category of transactions as extracted from the letter from the Board have been summarised as follows:

Parties	(1) the Company  (2) SWHYG
Duration	From 1 September 2025 to 31 May 2028
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 determined based on normal commercial principles (including individual negotiation with reference to market levels and actual circumstances), taking into account the scope of work and nature of the services as well as the resources utilised, and based on principles of fairness and reasonableness, co-development, benefit sharing. 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 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 received/receivable 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 transaction 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 handling services fees, the fees received/receivable or paid/payable (as the case may be) shall be determined with reference to expected costs.</p>



- (2) With respect to investment operational supporting services, the fees to be 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 either (i) normal commercial principles (including individual negotiation with reference to market levels and actual circumstances); or (ii) the actual costs incurred in connection with provision of services (including but not limited to the staff cost of the middle-office and back-office of the Group); or (iii) a prescribed percentage (ranging from 20%-50%) 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) a prescribed percentage (ranging from 15%-50%) of the after-tax actual relevant commission earned by the Group; or (iii) fixed monetary consideration agreed in writing, for which the price and the terms will be determined based on arm's length basis and normal commercial principles with reference to the scope of work. With respect to the investment management and advisory services transactions, the fees received/receivable or paid/payable (as the case may be) shall be determined with reference to, 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. 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.



- (3) With respect to research supporting services transactions, the pricing will be based on either (i) the fixed monetary consideration agreed in writing annually, for which the price and the terms will be determined based on arm's length basis and normal commercial principles with reference to the scope of work; or (ii) a prescribed percentage of 30% of the after-tax actual relevant commission earned by the Group. Given no other service providers providing the same or similar services supported by the SWHYG Group, it is not practicable to obtain quotations from independent third parties for comparison. The Group will conduct on an annual basis or more regularly, if required, to review the fees charged with reference to the scope of work performed.
- (4) With respect to corporate finance transactions, relevant business departments shall make reference to the fees for comparable transactions of independent third parties in the market and ensure that the pricing is negotiated on an arm's length basis.
- (5) With respect to principal-to-principal transactions, for bonds on the primary debt market, they will be priced at face value. For bonds traded over-the-counter on the secondary debt market, the price and terms will be determined on the basis of arm's length negotiations and respective clients' demand for the market making business. The structured products will be priced on normal and ordinary commercial terms and based on either (i) the complexity of the products' structure and market conditions at the time of issuance 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 issuance. 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 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 fixed percentages of 0.05% to 0.10% of the gross consideration of clients' trade turnover. We have reviewed the commission and service rates charged by five independent brokers in relation to securities brokerage services in the PRC markets, which are considered to be fair and representative given that such independent brokers (i) are well-established in Hong Kong; and (ii) offer comparable securities brokerage services to clients in Hong Kong. Given the Company's usual practice of obtaining at least three fee quotations when sourcing services, we consider the review of rates from five independent brokers sufficient. We noted that the brokerage service fees charged by the SWHYG Group were no less favourable than those offered by the independent brokers.

##### **Investment operational supporting services**

As advised by the management of the Group, the investment operational supporting service fees charged by the SWHYG Group are determined based on the expected costs to be incurred by the SWHYG Group for the 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 for 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, as well as the breakdown setting out the estimated man-days/man-hours and the average hourly payroll in calculating the expected costs of services for the period from June 2023 to November 2024 which covers half of the term of the 2022 SWHYG MOU and are considered to be fair and representative samples, and noted that the average hourly payroll charged by the SWHYG Group was lower than the salary rates of the Group's relevant staff.

##### **Research supporting services**

The pricing, which is expected to be a fixed monetary consideration agreed in writing on an annual basis, is determined based on normal commercial principles and at arm's length, after taking into account the scope of work. As advised by the management of the Group, no research supporting services agreement was signed between the Group and the SWHYG Group during the past three years and therefore no comparison can be made.



#### 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 by the Group from third party customers for each project. These percentages ranged from 8% to 50% in the past, depending on the nature and amount of work done by the SWHYG Group. As advised by the management of the Group, no corporate finance services agreement was signed between the Group and the SWHYG Group during the past three years and therefore no comparison can be made.

#### 2.2.1.2 Services provided by the Group to the SWHYG Group

##### Brokerage services

As advised by the management of the Group, the Group charges the SWHYG Group at fixed percentages of 0.03% to 0.3% 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 2022 – 2023. We have reviewed the client commission and rebate reports in 2024 for the SWHYG Group and independent third parties 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 within the range of those charged by the Group to independent third parties.

##### Investment operational supporting services

As advised by the management of the Group, the pricing of the supporting services is determined based on either (i) normal commercial terms with reference to market levels; or (ii) the actual costs incurred in provision of such services (including, but not limited to, the staff cost of the middle-office and back-office of the Group); or (iii) a prescribed percentage (ranging from 20% to 50%) of the after-tax actual relevant commission earned by the SWHYG Group. As further advised by the management of the Group, both the advisory service fee income derived from the SWHYG Group's International Business Division and outsourcing service income (including provision of accounting and finance, information technology, human resources, operation, and administrative services) are determined based on actual staff costs and related disbursements incurred, incorporating a mark-up of 5% to comply with transfer pricing guidelines for multinational enterprises and tax administrations (the “**Transfer Pricing Guidelines**”) promulgated by Organisation for Economic Co-operation and Development, an international organisation of international cooperation, which provides guidance on the application of the “arm's length principle” for the valuation, for tax purposes, of cross-border transactions between associated





enterprises. The Transfer Pricing Guidelines suggest that a 5% mark-up may be applied to low value-adding intra-group services performed by one group member solely on behalf of one other group member.

For investment management and advisory services transactions, the fees charged/chargeable are determined with reference to including, among other things, the fund management fees and performance fees of independent third parties in the market. We have reviewed three agreements entered into between the Group and independent third party clients in relation to the investment management and advisory transaction services. As the samples are randomly selected out of a total of 18 agreements entered into between the Group and independent third party clients during the term of the 2022 SWHYG MOU, they are considered to be fair and representative samples. We noted that the investment management and advisory services fees charged by the Group to the SWHYG Group were no less favourable than those charged by the Group to independent third party clients.

#### 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 by the SWHYG Group. These percentages ranged from 8% to 50% in the past, depending on the nature and amount of work done by the 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 and therefore no comparison can be made.

#### 2.2.1.3 Principal-to-principal transactions of investment products

As advised by the management of the Group, among those financial products, the debt securities trading, which is priced at face value or determined on the basis of arm's length negotiations, and the total return swaps, which are conducted on a back-to-back basis initiated by the clients, contribute the majority of the principal-to-principal trading amounts. Acting as principal to the back-to-back transactions, the return arising from the underlying investments attributable to the client of the SWHYG Group and the related hedging profit/loss of the Group will be booked in a net basis (i.e. being offset) in the income statement of the Group, and the total return swap payables and the respective underlying assets are booked on the balance sheet of the Group at the exchanged/settled amounts. 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 and, where applicable, interest income from the clients. We have reviewed the principal-to-principal transaction reports in 2024 for the SWHYG Group and independent third parties and noted that the handling fees charged by the Group to the SWHYG Group were no less favourable than those charged by the Group to independent third parties.



### 2.3 Our conclusion

Given that (i) the above pricing mechanisms are commonly seen and widely acceptable in the financial market and are in compliance with local laws and regulations; and (ii) we have reviewed and compared samples for transactions conducted with the SWHYG Group against those of independent third parties and/or internal pricing policies, where available or applicable, 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 2025 SWHYG MOU shall be conducted on normal commercial terms and thus the prices and terms are fair and reasonable.

## 3. The Annual Caps

### 3.1 Historical transaction amounts under the 2022 SWHYG MOU

Set out below are the historical transaction amounts under the 2022 SWHYG MOU for the period from 1 June 2022 to 31 May 2025 as compared to the annual caps under the 2022 SWHYG MOU:

		Seven months ended	Five months ended		
		31 December 2022	Year ended 31 December		31 May
		2022	2023	2024	2025
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(audited)	(audited)	(audited)	(unaudited)
Services provided by the SWHYG Group to the Group	Annual caps (A)	90,343	174,888	234,104	152,475
	Historical transaction amounts (D)	2,226	3,328	3,819	1,323
(i) Brokerage services relating to the PRC capital markets	Annual caps	2,391	4,508	4,959	2,273
	Historical transaction amounts	126	149	799	230
(ii) Investment operational supporting services	Annual caps	21,131	42,723	80,550	71,871
	Historical transaction amounts	2,100	3,179	3,020	1,093
(iii) Research supporting services	Annual caps	15,747	34,070	48,414	33,583
	Historical transaction amounts	–	–	–	–
(iv) Corporate finance services	Annual caps	51,074	93,587	100,181	44,748
	Historical transaction amounts	–	–	–	–



		Seven months ended 31 December 2022 HK\$'000 (audited)	Year ended 31 December 2023 HK\$'000 (audited)	2024 HK\$'000 (audited)	Five months ended 31 May 2025 HK\$'000 (unaudited)
Services provided by the Group to the SWHYG Group	Annual caps (B)	41,815	93,505	139,491	102,096
	Historical transaction amounts (E)	7,568	27,769	23,719	10,204
(i) Brokerage services relating to Hong Kong and overseas capital markets	Annual caps	2,984	5,627	6,189	2,837
	Historical transaction amounts	–	–	1,749	286
(ii) Investment operational supporting services relating to Hong Kong and overseas markets	Annual caps	29,206	69,728	113,337	90,108
	Historical transaction amounts	7,568	27,769	21,970	9,918
(iii) Corporate finance services	Annual caps	9,625	18,150	19,965	9,151
	Historical transaction amounts	–	–	–	–
Principal-to-principal trading of financial products	Annual caps (C)	1,180,404	6,039,250	10,078,500	6,732,083
	Historical transaction amounts (F)	376,358	1,175,376	5,447	2,646,224
Annual Caps under the 2022 SWHYG MOU (A+B+C)		1,312,562	6,307,643	10,452,095	6,986,654
Historical transaction amounts under the 2022 SWHYG MOU (D+E+F)		386,152	1,206,473	32,985	2,657,751

As shown in the above table, for the seven months ended 31 December 2022, the two years ended 31 December 2023 and 2024 and the five months ended 31 May 2025, the utilisation rates of the annual caps under the 2022 SWHYG MOU were low. In particular, no transaction amounts were recorded during the period from 1 June 2022 to 31 May 2025 for (i) provision by the SWHYG Group to the Group of (a) research supporting services; and (b) corporate finance services; and (ii) provision by the Group to the SWHYG Group of corporate finance services.

The low utilisation rates across services between the Group and the SWHYG Group from 2022 to 2024 can be attributable to macroeconomic challenges, shifting market dynamics and regulatory constraints. Macroeconomic challenges, including lingering effects from the COVID-19 pandemic,



persistently high interest rates in Hong Kong and overseas markets during 2022 to 2024 as compared to previous years, weak real estate performance, and sluggish economic recovery, significantly dampened demand from clients for services across brokerage, corporate finance, and investment. In China's capital markets, declining indices (Shanghai Composite Index, Shenzhen Component Index, and ChiNext Index) between 2022 and 2023 and negative sentiment toward the property sector further eroded investor confidence, leading to reduced activity in brokerage, research, and corporate finance transactions. Concurrently, constrained financing conditions redirected clients' focus away from the PRC markets towards overseas alternatives like the U.S. and Japan, particularly for investments and research services.

The change of the business model of the SWHYG Group and shift in investor preferences led to substantial declines in service utilisation. For instance, one of the wholly-owned subsidiaries of the SWHYG Group's proprietary investment team, established in 2023, reduced reliance on the Group's asset management services for Hong Kong and overseas markets, contributing to underutilised annual caps in investment operational support services. Similarly, corporate finance referrals (e.g., initial public offerings, mergers and acquisition, and financial advisory services) stagnated as deal closures were reduced during 2022 to 2024 due to subdued capital markets in the PRC and Hong Kong. Regulatory constraints also played a role, limiting cross-border business activities and principal-to-principal trading volumes.

Transaction amounts for corporate finance, which are basically referral fees contingent upon deal closures, were nil during the period. Similarly, no QDII consulting services were provided to the SWHYG Group since 2024 because the SWHYG Group increasingly conducted transactions directly with external counterparties after it, being the issuer of QDII products, has accumulated sufficient experience over the years and therefore reduced its reliance on the Group. Meanwhile, principal-to-principal trading of financial products dwindled as the SWHYG Group increasingly engaged external counterparties.

### **3.2 Analysis on financial markets and the Group's business performance**

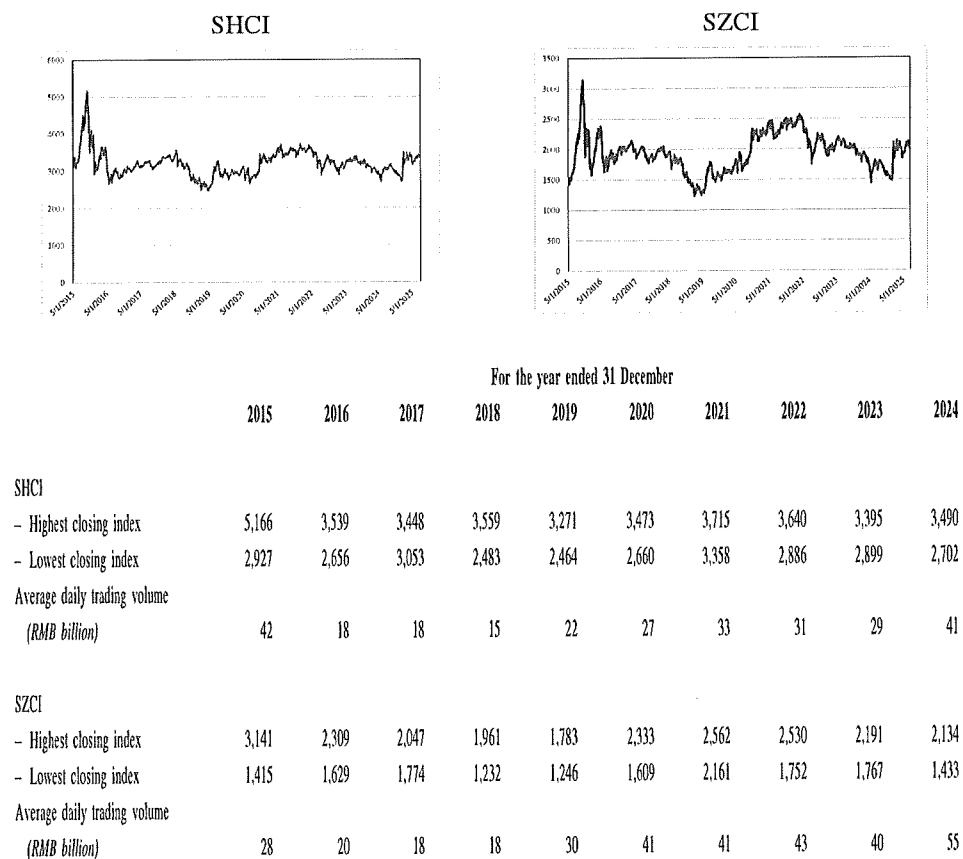
We have discussed with the management of the Group and were advised that they would not only consider the historical transaction amounts but also take into account, amongst others, the historical performance of the PRC and Hong Kong stock markets and the Group's business performance for a longer horizon. 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 2024:



### 3.2.1 financial markets

#### PRC financial markets

**Graph 1: Shanghai Composite Index and Shenzhen Composite Index**



Source: Bloomberg

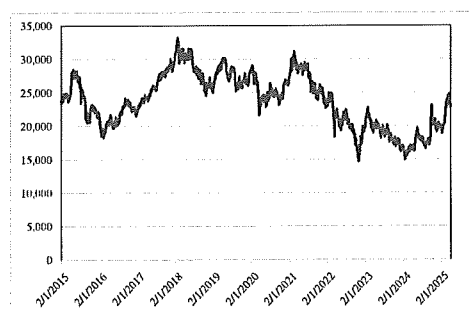
As shown in the above graphs and tables, both the SHCI and SZCI had reached their highs of 5,166 and 3,141 in 2015 with average daily turnover of RMB42 billion and RMB28 billion respectively. The PRC stock markets then reversed some of the gains in 2015 and had been hovering in the range of 2,500 to 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 coupled with the increase in average daily turnover of SHCI by 22%– 23% in 2020 – 2021 and SZCI by 37% in 2020 and continued the high level in 2021. From 2022 onwards, both markets exhibited a general decreasing trend, with the SHCI closing around 2,750 and the SZCI at around 1,500 on 23 September 2024. However, on 24 September 2024, the PRC regulatory authorities announced stimulus package designed to revitalise the economy, which included cut(s) in mortgage-debt servicing and provision of facilities for stock markets. Consequently,



both indices rebounded, closed at 3,352 for the SHCI and 1,957 for SZCI, respectively, on 31 December 2024. The announcement of these stimulus policies also had a significant impact on trading activity, resulting in a notable surge in average daily trading volumes. The SHCI experienced an increase of 41.4%, while the SZCI saw a rise of 37.5% in 2024.

#### Hong Kong financial market

**Graph 2: Hang Seng Index**



	For the year ended 31 December									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
HSI										
- Highest closing index	28,443	24,100	30,003	33,154	30,157	29,056	31,085	24,966	22,689	23,100
- Lowest closing index	20,557	18,320	22,134	24,586	25,064	21,696	22,745	14,687	16,201	14,961
Average daily trading volume										
(HK\$ million)	1,950	1,733	1,822	2,069	1,728	2,140	2,310	2,366	3,058	3,830

*Source: Bloomberg*

As shown in the above graph and table, both HSI and its average daily turnover dropped to around 24,000 and HK\$1,733 million in 2016, and then bounced back to reach 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 returning to HK\$2,310 million in 2021. From 2022 to 2024, the HSI oscillated between about 15,000 and 25,000 and hit its lowest of just below 15,000 in 2022 and 2024 and rebounded to almost 25,000 in 2022 and 23,000 in 2024. In late September 2024, the PRC regulatory authorities announced stimulus package designed to revitalise the economy in late-September 2024 as discussed above. Following this announcement, the HSI rebounded and closed at 20,060 at the year end of 2024. In addition, the average daily trading volume also registered an increase of 25.2% from 2023 to 2024.

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 RMB42 billion in 2015 to RMB15-18 billion in 2016 – 2018 and gradually picked up in 2019 – 2024 and returned to RMB41 billion.



The average daily trading volume of SZCI showed similar trend in 2015 – 2024, but managed to surpass the previous high in 2022 to achieve RMB55 billion in 2024. Compared to the PRC stock markets, the average daily trading volume of Hong Kong stock market was relatively stable and overall exhibited a positive growth trend. While the Annual Caps are arrived at 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 in 2022 – 2024, 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 thereby adversely affecting the collaboration opportunities between the SWHYG Group and the Group.

### 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 2023 Annual Report and the 2024 Annual Report for financial years ended 31 December 2022, 2023 and 2024 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 %
2022	46,995	(53)%	(11,914)	n.a.	273,140	(26)%	99,440	(57)%	18,679	(35)%
2023	70,025	49%	101,428	n.a.	301,249	10%	127,136	28%	18,377	(2)%
2024	89,921	28%	(435,635)	n.a.	266,127	(12)%	124,226	(2)%	11,258	(39)%

The Group's operation can be broadly categorised into five segments, namely corporate finance, principal investment, wealth management, institutional services and trading and asset management.

In 2022, the income from corporate finance segment decreased by 53%, but rebounded by 49% in 2023 and 28% in 2024. The principal investment segment saw a notable recovery, rising from a negative HK\$11.9 million in 2022 to HK\$101.4 million in 2023. However, it faced a significant decline in 2024, dropping to negative HK\$435.6 million due to business valuation adjustment on investment projects. Wealth management revenue exhibited fluctuations, with a 10% increase in 2023 following a 26% decrease in 2022, but it decreased again by 12% in 2024. The institutional services and trading segment also experienced significant volatility, rising by 28% in 2023 after a 57% drop in 2022, followed by a decline again by 2% in 2024. Lastly, the asset management segment has consistently seen a decline in revenue over the years, with decreases of 35%, 2% and 39% from 2022 to 2024, respectively.



### 3.3 Conclusion

Due to the volatility and unpredictability of the PRC and Hong Kong stock markets 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 2025 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, recent government policies on financial markets with an aim to ride on the possible cyclical upturn of the markets in the near future, rather than the historical transaction amounts in recent years.

### 3.4 Annual Caps

Set out below is a summary of the Annual Caps in respect of the proposed Continuing Connected Transactions for the four months ending 31 December 2025, each of the two years ending 31 December 2027, and the five months ending 31 May 2028:

	Four months ending 31 December 2025 <i>HK\$'000</i>	Year ending 31 December 2026 2027 <i>HK\$'000</i>		Five months ending 31 May 2028 <i>HK\$'000</i>
Annual Caps for services relating to SWHYG Transactions comprising:				
Services provided by the SWHYG Group to the Group (A)	32,686	104,231	111,104	49,495
Brokerage services relating to the PRC capital markets	1,627	5,638	6,524	3,151
Investment operational supporting services	6,617	22,720	26,054	12,472
Research supporting services	8,000	24,000	24,000	10,000
Corporate finance services	16,442	51,873	54,526	23,872





	Four months ending 31 December 2025 HK\$'000	Year ending 31 December 2026 HK\$'000	2027 HK\$'000	Five months ending 31 May 2028 HK\$'000
<b>Services provided by the Group to the SWHYG Group (B)</b>	<b>24,769</b>	<b>87,687</b>	<b>101,601</b>	<b>57,104</b>
Brokerage services relating to Hong Kong and overseas capital markets	1,333	4,800	5,760	6,912
Investment operational supporting services relating to Hong Kong and overseas markets	13,545	51,413	66,167	36,228
Corporate finance services	9,891	31,474	29,674	13,964
<b>Principal-to-principal trading of financial products (C)</b>	<b>6,003,333</b>	<b>20,020,000</b>	<b>24,040,000</b>	<b>11,700,000</b>
<b>Annual Caps (A+B+C)</b>	<b>6,060,788</b>	<b>20,211,918</b>	<b>24,252,705</b>	<b>11,806,599</b>

We have discussed with the management of the Group and were advised that the Annual Caps for each category of the services under the 2025 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 relating to the PRC capital market provided by the SWHYG Group to the Group mainly represents the brokerage services for securities trading related to the B-share, the Offshore Investors Schemes (including but not limited to QFI, Bond Connect, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC), 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) the 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) 2025 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 2025 key performance indicator set for securities brokerage business. In addition, the management of the Group expects that the Group will benefit from the increase in demand arising from the global capital reassessment of the value of PRC assets and 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 7.9% from RMB23.3 trillion in 2022 to RMB25.1 trillion in 2023, and then further increased by 39.2% to RMB35.0 trillion in 2024, representing a compound average growth rate of 22.6% from 2022 to 2024. Furthermore, we have obtained and reviewed the monthly management reports of the Group from January 2024 to March 2025 and noted that the brokerage services relating to the PRC capital markets increased by 22% in the first quarter of 2025 compared to the last quarter of 2024, indicating a growing demand for these services. Based on the Annual Caps projection provided by the Company, the Annual Caps in respect of these services are determined with reference to (i) the historical non-Hong Kong securities brokerage commission income of the Group for the three years ended 31 December 2024; and (ii) a projected annual growth rate of 15%. Given the projected growth rate is lower than the compound annual growth rate of northbound trading and the recent rising demand for the brokerage services for the PRC capital markets as discussed above, we consider the adoption of projected growth rate of 15% to be prudent and reasonable.

(b) Investment operational supporting services

As stated in the letter from the Board, the supporting services provided by the SWHYG Group to the Group in support of the Group's PRC and overseas market development and operations, so as to promote the Group's investment operations, the scope of which includes, but not limited to, the new products services launched or to be launched, such as the QFI, Mainland-Hong Kong Mutual Recognition of Fund Programs, domestic commodity futures, domestic bonds (Bond Connect), Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC. When these new products are launched, the SWHYG Group can assist the Group in aspects such as client referrals, business and market consultations, and staff training, and assist the Group in providing support services for business market consultations. As advised by the management of the Group, the investment operational supporting services relating to the PRC markets provided by 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. In addition, the management of the Group is of the view that amid the global capital reassessment of the value of PRC assets, coupled with the increasing number of PRC companies listed in both Hong Kong and Mainland China, as well as the growing interest of the Group's clients in investing in



the PRC-related securities, the demand for professional advisory services covering both Hong Kong and Mainland China is expected to surge significantly, representing a critical business opportunity for the Group to capture clients' demand for investments in the PRC market. 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) the historical Hong Kong securities brokerage commission income of the Group for the three years ended 31 December 2024 and an annual growth rate of 15%, 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 15% of historical Hong Kong securities brokerage commission income of the Group after taking into account (a) the 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) 2025 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 2025 key performance indicators set for securities brokerage business.

(c) Research supporting services

As stated in the letter from the Board, the research supporting services provided by the SWHYG Group to the Group based on the business needs of the Group, to support the Group's securities, futures, and corporate finance business, include economic analysis, investment strategy research, industry research, Hong Kong and PRC listed company research, and research services for fixed income products, derivative and other securities, as well as provision of customised investigations and argumentation research services as requested by the Group. As advised by the management of the Group, a substantial portion of its current customers who require securities brokerage services from the Group rely on the research supporting services provided by the SWHYG Group. Based on the Annual Caps projection provided by the Company, the Annual Caps for the research supporting services provided by the SWHYG Group to the Group were determined with reference to (i) the historical Hong Kong securities brokerage commission income of the Group for the three years ended 31 December 2024, assuming the research supporting service fees paid to the SWHYG Group accounting for 30% of Hong Kong securities brokerage commission of the Group after taking into account (a) a prescribed sharing ratio of approximately 30% on the 3-year average of related Hong Kong securities commission income (including futures and options) which is in accordance with the internal pricing policy of the Group; (b) 2025 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 2025 key performance indicators set for securities brokerage business.



(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, corporate finance projects, merger and acquisition transactions 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 SWHYG 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) the historical corporate finance income of the SWHYG Group for the year ended 31 December 2023 and the estimated 1% of such income coming from the supporting corporate finance services provided to the Group after taking into account (a) the historical corporate finance services fees paid to the SWHYG Group; (b) 2025 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 2025 key performance indicator set for corporate finance business and a projected annual growth rate of 5%; (ii) the Group's potential demand for research reports for IPO and placing projects with reference to the number of projects completed in 2024 and a projected growth of one project per annum; and (iii) the Group's potential demand for the debt capital market projects, also based on the number of projects completed in 2024 and a projected growth rate of 5%. We have discussed the projection with the management of the Group and are advised that the annual growth rate of 5% for corporate finance income and debt capital market projects was determined with reference to the increase in (i) such income of the Company by 4.2% to HK\$22.0 million and (ii) number of projects by 5.7% to 37 for the first quarter of 2025 as compared to the same period in 2024. We have obtained and reviewed the monthly management accounts of the Group and lists of debt capital market projects from January 2024 to March 2025 and noted that the growth rates as aforementioned agree to the information that we have reviewed. On this basis, we consider the adopted growth rate to be appropriate and reasonable.

*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, regarding brokerage services in the Hong Kong and overseas capital markets, the Group provides the SWHYG Group with brokerage services across various investment products available for the SWHYG Group to participate in Hong Kong and overseas, as well as client referral services. The Group's services provided to the SWHYG Group under this category include, but not limited to, (i) brokerage and related services arising from Hong Kong and overseas investment products such as stocks, futures, options, bonds, etc.; and (ii) additional brokerage services with respect to overseas investment products, including but not limited to, QDII, QDII 2, RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC, after the Group is one of the designated service providers of the SWHYG Group. We have obtained and



reviewed the monthly management accounts of the Group from January 2024 to March 2025 and noted that the brokerage services relating to the Hong Kong capital markets increased by 25% in the first quarter of 2025 as compared to the last quarter of 2024, indicating a growing demand for these services. As advised by the management of the Group, no brokerage services with respect to overseas capital markets were provided to the SWHYG Group in the past three years. Therefore, no review is conducted. 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 provided by the Group to the SWHYG Group are determined with reference to (i) the historical Hong Kong securities brokerage income of the Group for the three years ended 31 December 2024 and an estimated 5% of such income related to the provision of Hong Kong securities brokerage services to the SWHYG Group after taking into account (a) the historical brokerage services fees relating to Hong Kong and overseas capital markets paid by the SWHYG Group to the Group; (b) 2025 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 2025 key performance indicator set for securities brokerage business; and (ii) an annual growth rate of 20%, reflecting the rising demand for the brokerage services for the Hong Kong capital markets as discussed above. Given the projected growth rate is lower than actual quarter-on-quarter growth rate of brokerage services relating to the Hong Kong capital markets, we consider the adoption of annual growth rate to be prudent and reasonable.

(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 in support of the SWHYG Group's market development and operations include, but not limited to, products or arrangements launched or to be launched in the future, such as QDII, QDII 2, RQDII, QFI, Mainland-Hong Kong Mutual Recognition of Fund Programs, overseas commodity futures, offshore bond issuance (Bond Connect), Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. As advised by the management of the Group, (i) the advisory service fee income derives from such investment operational supporting services provided to the SWHYG Group's International Business Division after taking into account (a) the historical staff costs incurred in connection with provision of the supporting services for the year ended 31 December 2024 with an estimated growth rate of 20%, which aligns that for the brokerage services relating to the Hong Kong and overseas capital markets to be provided by the Group to the SWHYG Group above; (b) 2025 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 2025 key performance indicators set for wealth management business and securities brokerage business; (ii) the expected increase of 20% in investment operational supporting services relating to Hong Kong and overseas markets for asset management business provided to the SWHYG Group in the next three years, after considering the increase in management fee income; and (iii) the Group's outsourcing service income is expected to grow at a rate of 50%, after taking into account (a) 2025 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 2025 key performance indicators set for wealth management business and securities brokerage business. We have obtained and reviewed the monthly management reports of the Group from January 2024 to March 2025 and noted that the management fee income increased by 19% for the second half of 2024 as compared to the first half of 2024. On this basis, we consider the adoption of 20% annual increase in investment operational supporting services to be reasonable. We have discussed with and are advised by the management of the Group that the Group plans to strengthen their expertise by recruitment in order to meet the SWHYG Group's business needs. We have also reviewed the budget of the Group for the year ending 31 December 2025 and noted that the outsourcing service income is expected to increase by 50% as compared to the actual amount for the year ended 31 December 2024.

(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 not limited to, corporate finance projects, merger and acquisition transactions, and financial advisory services. As advised by the management of the Group, 30% 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) 2025 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 2025 key performance indicator set for corporate finance business. In addition, the management of the Group advised that the Group is expected to participate in one of the wholly-owned subsidiaries of the SWHYG Group's offshore bond issuance as an underwriter in 2026 and 2028, respectively, providing rating advisory, roadshow coordination, marketing, pricing and bookrunning services for the renewal of the two existing bonds upon their expiries. Based on the Annual Caps projection provided by the Company, the Annual Caps for the corporate finance services provided by the Group to the SWHYG Group are determined with reference to (i) the historical corporate finance income of the Group for the year ended 31 December 2024 and the expected portion of such income coming from provision of corporate finance services to the SWHYG Group; (ii) a projected annual growth rate of 10% given the Group's strategic plan and the Group's internal 2025 key performance indicator set for corporate finance business as discussed above; and (iii) the expected commission to be received for the potential participation in the SWHYG Group's offshore bond issuance as an underwriter. We have reviewed the 2024 Annual Report and noted that the corporate finance income of the Group increased by 28.4% to HK\$89.9 million for the year ended 31 December 2024. In addition, we have reviewed the monthly management accounts of the Group from January 2024 to March 2025 and noted that the corporate finance income increased by 4.2% in the first quarter of 2025 compared to the same period in 2024. Given that the projected growth rate of 10% is determined after balancing the annual growth rate of 28.4% and the quarterly growth rate of 4.2%, we consider it to be reasonable.



### *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 total return swaps, bond-linked notes, interest rate-linked notes, fund-linked notes, equity-linked notes) as well as customised investment products trading and related services, in particular debt securities trading. As advised by the management of the Group, among those financial products, the debt securities trading and the total return swaps contribute the majority of the principal-to-principal trading amounts. For debt securities trading, newly issued bonds on the primary market are priced on their face value and bonds traded on the secondary market are agreed prices after arm's length negotiation. Acting as principal to the back-to-back transactions, the return arising from the underlying investment attributable to the client of the SWHYG Group and the related hedging profit/loss of the Group will be booked in a net basis (i.e. being offset) in the income statement of the Group, and the total return swap payable and the respective underlying assets are booked on balance sheet of the Group at the exchanged/settled amounts. 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 estimated demand from the Group's customers for cross-border financial services as the management of the Group expected the transaction volumes to increase significantly over the next three years in view of recent increase in average daily trading value of stocks listed on the Main Board of Stock Exchange, from HK\$99.3 trillion to HK\$121.5 trillion for the first three quarters of 2024, to HK\$186.8 trillion in the fourth quarter of 2024, and further to HK\$242.7 trillion in the first quarter of 2025, and anticipating a further pickup following the resolution of US election-related uncertainties and the commencement of the expected interest rate cut cycle.

### **3.4 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 2025 SWHYG MOU:

- (i) historical transaction amounts or historical growth rates of the services in 2022 – 2025;
- (ii) historical PRC and Hong Kong stock markets performance and their volatility;
- (iii) fluctuations of the operating performance of the Group's business segments in 2022 – 2024;



- (iv) 2025 strategic plan of the Group which aims to deepen the cross-border cooperation between the Group and the SWHYG Group, by focusing on high-quality development and leveraging the offshore platform's professional strengths. The 2025 strategic plan prioritises aligning with national strategies, integrating into the Greater Bay Area and Belt and Road Initiative, and enhancing cross-border business synergy. Key objectives include optimising the business structure, upgrading products and services, and strengthening financial service capabilities. In addition, the 2025 strategic plan accelerates the adoption of financial technologies to drive digital transformation, enhance business and management quality while fostering sustainable, high-level development; and
- (v) the Group's internal 2025 key performance indicators set for each business segment of the Group, including but not limited to targets for market share in Hong Kong securities brokerage, assets under management, and corporate finance industry rankings based on underwriting amounts or the number of deals completed.

As discussed above, the Company applied different growth rates across its various services in determining the Annual Caps, which, in our view, is reasonable as they pertain to the specific circumstances of each service. The projected growth rates for the Annual Caps are also linked to the Group's 2025 strategic plan and internal key performance indicators, reflecting the Group's strategic focus on deepening cross-border collaboration, enhancing service quality, and capitalising on market opportunities in the PRC and Hong Kong. By aligning the Annual Caps with the strategic plan's emphasis on cross-border synergy and the key performance indicators' targets for market share and deal activity, the Group ensures that the Annual Caps are forward-looking and sufficient to support anticipated business growth, rather than being constrained by historical underutilisation. This approach enables the Group to pursue its strategic objectives while maintaining flexibility to navigate volatile financial markets.

As stated in the Letter from the Board, despite the high revenue ratio of the annual cap arising from services provided by the Group to the SWHYG Group as compared to the Group's revenue for the year ended 31 December 2024, the Directors are of the view that there is no material reliance on the SWHYG Group based on the reasons set out in the Letter from the Board. In particular, as stated in the Letter from the Board, the revenue of the Group for the year ended 31 December 2024 included an unrealised loss from a consolidated investment fund from investment business of HK\$436.5 million due to a business valuation adjustment. We have reviewed the 2024 Annual Report and noted that such unrealised loss reduced the revenue of the Group for the year ended 31 December 2024 to HK\$55.9 million. If such unrealised loss is excluded, the highest proposed annual cap for the services to the SWHYG Group represents 21% of the adjusted revenue, indicating that the contribution from the SWHYG Group is not unreasonable. Furthermore, the historical revenue of the Group from 2020 to 2024 were HK\$835.3 million, HK\$730.3 million, HK\$426.3 million, HK\$618.2 million and HK\$55.9 million, respectively, representing year-on-year changes of -12.6%, -41.6%, 45.0% and -91.0%. Such significant volatility suggests that the 2024 revenue, which was exceptionally low and was heavily impacted by the valuation adjustment, shall not be used to consider as to whether the Group has any material reliance on the SWHYG Group. Given the highest proposed annual cap for the services to the SWHYG Group representing 12% – 24% of the Group's revenue in 2020 – 2023, we concur with the Directors' view that there is no material reliance on the SWHYG Group.





Given (i) the volatility and unpredictability 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, upon any material change in market condition or requests by the Audit Committee, such as change of the Listing Rules or upon reaching the annual caps, the responsible business department of the Group will procure other quotations from independent brokers and service providers in the market and/or the rates charged to independent third party clients of the Group for similar transaction values 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 and/or comparable transactions carried out with independent third party clients of the Group (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) or 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 investment operational supporting services, according to the Group's internal policy, the reasonableness of the estimated man-days/man-hours 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 of the SWHYG Group against the salary rates of the Group's relevant staff 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 provision of supporting services will be verified by the Group's independent departments (e.g. internal audit department, finance department); (7) the Company's auditors and independent non-executive Directors will conduct an annual review in respect of the Continuing Connected Transactions of the Group 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 2025 SWHYG MOU.

#### **OPINION AND RECOMMENDATION**

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the 2025 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 2025 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 2025 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.*