
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:

Wu Meng (*Chairman*)

Tan Weijun

Liang Jun (*Chief Executive Officer*)

Hu Jing (*Chief Risk Officer*)

Registered Office:

Level 6

Three Pacific Place

1 Queen's Road East

Hong Kong

Non-executive Directors:

Zhang Lei

Zhang Ying

Independent non-executive Directors:

Kwok Lam Kwong Larry

Liu Chijin

Chiu Lai Kuen Susanna

12 August 2025

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the announcement published by the Company on 20 April 2022 and the circular issued by the Company on 13 May 2022.

The continuing connected transactions contemplated under the 2022 SWHYG MOU were approved by the then Independent Shareholders at the EGM 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 approval by the Independent Shareholders at the EGM and shall expire on 31 May 2028.

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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, setting out its opinion to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions and the Annual Caps; and (iv) a notice of the EGM.

2. PRINCIPAL TERMS OF THE MOU

2025 SWHYG MOU

Date

5 August 2025

Parties

- (1) SWHYG
- (2) the Company

Duration

1 September 2025 to 31 May 2028

Provisions of services

The scope of services consists of the following:

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

- (i) *Brokerage services:* regarding brokerage services in the PRC capital markets, the SWHYG Group provides the Group with brokerage services related to securities, including but not limited to providing B-share brokerage services. The scope of services provided by the SWHYG Group to the Group includes, but is not limited to, the anticipated introduction of offshore investor schemes in the future. The SWHYG Group provides brokerage services for investment products that are allowed to be traded under these schemes to the Group's clients. The SWHYG Group will actively cooperate with the Group to take measures to develop the business of overseas institutions and individuals investing in the B-share market, including jointly developing overseas institutional investors (such as QFI, Bond Connect, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC). Meanwhile, the SWHYG Group also provides the Group with other anticipated brokerage services;

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- (ii) *Investment operational supporting services:* 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 is 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 implemented, 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, 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:* provision of various research supporting services to the Group by the SWHYG Group based on the business needs of the Group, to support the Group's securities, futures, and corporate finance business. The research services provided by the SWHYG Group include economic analysis, investment strategy research, industry research, Hong Kong and PRC listed company research, and research services for fixed income product, derivative and other securities, as well as provision of special investigation, demonstration, etc. based on the Group's requirements; and
- (iv) *Corporate finance services:* 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 transactions, including but not limited to, finance projects, merger and acquisition transactions and financial advisory services. The cooperation transactions are as follows:
 - (a) *Finance projects:* the SWHYG Group will fully utilise its resources in corporate finance business to provide relevant 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 services in connection with merger and acquisition business, so as to make full use of each other's strengths and to provide more complete services to the clients.

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- (c) *Financial advisory services:* the SWHYG Group provides the Group with 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 offering of securities and corporate restructuring.

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

- (i) *Brokerage services:* regarding brokerage services in the Hong Kong and overseas capital markets, the Group provides the SWHYG Group with brokerage services for various investment products available for the SWHYG Group to participate in Hong Kong and overseas, as well as client referral services. The Group’s business scope includes, but is not limited to, (i) brokerage and related services arising from Hong Kong and overseas investment products such as stocks, futures, options, bonds, etc.; (ii) the Group is 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, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC.
- (ii) *Investment operational supporting services:* Hong Kong and overseas market supporting services provided by the Group to the SWHYG Group in support of the SWHYG Group’s market development and operations. Service coverage includes, but is not limited to, new products or new 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.

When these products or plans are implemented, the Group can assist the SWHYG Group in aspects such as business and market consultations and staff training, including but not limited to: (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, (v) providing logistics services, and (vi) the Group granting a license for the SWHYG Group to occupy the Group’s Hong Kong office.

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The SWHYG Group can engage the Group to provide asset management services for managing its capital investment. The services to be provided by the Group to the SWHYG Group include but are 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:* the SWHYG Group and the 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 transactions, including but not limited to, finance projects, merger and acquisition transactions, and financial advisory services. The cooperation transactions are as follows:
- (a) *Finance projects:* the Group will fully utilise its resources in 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, so as to make full use of each other's strengths and to provide more complete services to the clients.
- (c) *Financial advisory services:* the Group provides the SWHYG Group with information of financial advisory business, and introduces clients to the SWHYG 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, etc. 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 coordinator, etc., compliance advisory service in relation to the Hong Kong Listing Rules and the Takeovers Code, corporate restructuring and cross-border financial service, and other types of legal compliance advisory services.

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

The principal-to-principal transactions between the SWHYG Group and the Group, including but not limited to, derivative transactions (including but not limited to 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

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investment products 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 the SWHYG Group, or subsidiaries included in the consolidated financial statements of Shenwan Hongyuan Securities Co., Ltd. and the Group.

The underlying of structured products trading (including total return swap transactions) includes but is not limited to equity, bonds, funds, and the transactions are conducted on a back-to-back basis with clients. The total return swap transactions can be categorized into southbound and northbound.

1. For southbound transactions, it is initiated by an investment need from the clients of the SWHYG Group on certain offshore investment products. Then, the Group will enter into a pair of transactions. First, the Group will enter a total return swap with the SWHYG Group, through which the Group will receive the notional amount of the transaction from the SWHYG Group. On the other hand, for hedging purpose, the Group might either buy the offshore underlying investment products (e.g. a bond) or trade a total return swap with another external counterparty who will then pass the return to the Group in the same way the Group passes to the SWHYG Group. On the settlement date of the total return swap transaction, the Group will pass the total return which comprises the notional amounts and the return (e.g. investment profit/loss of the bond, interest accrued of the bond, etc.) arising from the underlying investments (e.g. bond investments) to the SWHYG Group.

The return arising from the underlying investments attributable to the clients 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 profit or loss of the Group. The Group will also recognise the handling fee income and, where applicable, interest income generated from total return swap transactions in the financial statements. The total return swap payables and the respective underlying assets are booked on the balance sheet of the Group at the exchanged/settled amounts.

2. For northbound transactions, it is initiated by an investment need from the clients of Group on certain investment products. Then, the Group will enter into a pair of transactions. First, the Group will enter a total return swap with the clients of the Group, through which the Group will receive the notional amount of the transaction from the clients. On the other hand, the Group will enter a total return swap with the SWHYG Group who will then pass the return to the Group in the same way the Group passes to the clients of the Group. On the settlement date of the total return swap transaction, the SWHYG Group will pass the total return which comprises the notional amounts and the return (e.g. investment profit/loss of the bond, interest accrued of the bond, etc.) arising from the underlying investments (e.g. bond investments) to the Group.

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The return arising from the underlying investments attributable to the clients of the Group and the return arising from the total return swap entered with the SWHYG Group will be booked in a net basis (i.e. being offset) in the profit or loss of the Group. The Group will also recognise the handling fee income and, where applicable, interest income generated from total return swap transactions in the financial statements. The total return swap receivables from the SWHYG Group and payables to the clients of the Group are booked on the balance sheet of the Group at the exchanged/settled amounts.

Such principal-to-principal transactions were introduced in 2020 and the Company expected that there will be an increasing demand for such cross-border investment product 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 for cross-border investment products from 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 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 utilized, 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 favorable to the SWHYG Group, or no less favorable to the Group, than the terms and the fees offered by the SWHYG Group or the Group to the independent third parties for similar comparable services, or the general terms and fees in the services 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

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 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 handling service fees, the fees received/receivable or paid/payable (as the case may be) shall be determined with reference to expected costs.

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The brokerage fees to be charged by the SWHYG Group to the Group relating to provision of the brokerage services for the PRC capital markets will be based on normal commercial principles including individual negotiation with reference to market rates and actual circumstances, and the most favourable rates charged by the SWHYG Group to its existing clients. The pricing policy shall 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 provision of 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 rates and actual circumstances, and the prevailing market rates charged by the Group to its existing clients. The pricing policy shall be based on a fixed percentage (0.03%-0.3%) of the gross consideration of clients' trade turnover. The fixed percentage has been determined by the type of the transactions (such as securities trading, options trading, etc.) after taking into account the rates charged by the Group to other independent third parties clients in the same/similar type of transactions. Such fixed percentage will be the prevailing market rates charged by the Group to its existing clients.

(2) 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 prescribed percentage has been determined having regards to (a) the transaction type and the complexity of the supporting service the SWHYG Group provided (for example, a relative low percentage will be adopted for customer services reflecting lower complexity, while a relative high percentage will be adopted for clients referrals reflecting the strategic value of client acquisition and cost incurred); (b) normal commercial principles and actual circumstances;

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. The prescribed percentage has been determined by (a) the demand of resources and the complexity of the supporting service the Group provided (for example, a tiered structure (i.e. a regressive percentage structure) of the percentage is adopted for financing projects referrals as initial years involve higher resource demands, which decrease as projects stabilize); (b) normal commercial principles and actual circumstances; or

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(iii) fixed monetary consideration agreed in writing, for which the price and the terms will be determined based on an 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 work performed.

(3) Research supporting service

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 an 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.

The research supporting service requested by our client is supported by the SWHYG Group as a whole. The integrated and streamlined services are unique in the market and only provided by the Group. Given no other service providers providing the same or similar services supported by the SWHYG Group, it is not practical 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 service

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. The fixed percentage has been determined having regards to (a) the business type and the complexity of the service provided (for example, a relative high percentage will be adopted for clients recommendations with supporting service (e.g. industry information provision) reflecting higher resources demand, while a relative low percentage will be adopted for clients recommendations without supporting service provided); (b) normal commercial principles and actual circumstances;

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(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 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.

According to 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 structured products. Such information collected will form part of the pricing basis of such debt securities and 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.

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3. PREVIOUS ANNUAL CAPS

Set out below are the Previous Annual Caps:

	Seven months ended 31 December 2022 <i>HK\$'000</i>	Year ended 31 December 2023 <i>HK\$'000</i>	December 2024 <i>HK\$'000</i>	Five months ended 31 May 2025 <i>HK\$'000</i>
Services provided by the SWHYG Group to the Group	90,343	174,888	234,104	152,475
(i) Brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	2,391	4,508	4,959	2,273
(ii) Investment operational supporting services from the SWHYG Group to the Group	21,131	42,723	80,550	71,871
(iii) Research 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	41,815	93,505	139,491	102,096
(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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4. HISTORICAL TRANSACTION AMOUNTS

Set out below is a summary of the Group's historical transaction amounts of the transactions under the 2022 SWHYG MOU for the seven months ended 31 December 2022, each of the two years ended 31 December 2024, and the five months ended 31 May 2025:

	Seven months ended 31 December 2022 <i>HK\$'000</i> (Audited)	Year ended 31 December 2023 <i>HK\$'000</i> (Audited)		2024 <i>HK\$'000</i> (Audited)	Five months ended 31 May 2025 <i>HK\$'000</i> (Unaudited)
Historical transaction amounts for services relating to the SWHYG Transactions comprising:					
Services provided by the SWHYG Group to the Group	2,226	3,328	3,819	1,323	
(i) Brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	126	149	799	230	
(ii) Investment operational supporting services from the SWHYG Group to the Group	2,100	3,179	3,020	1,093	
(iii) Research supporting services from the SWHYG Group to the Group	–	–	–	–	
(iv) Corporate finance services from the SWHYG Group to the Group	–	–	–	–	
Services provided by the Group to the SWHYG Group	7,568	27,769	23,719	10,204	
(i) Brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	–	–	1,749	286	
(ii) Investment operational supporting services relating to Hong Kong and overseas markets from the Group to the SWHYG Group	7,568	27,769	21,970	9,918	
(iii) Corporate finance services from the Group to the SWHYG Group	–	–	–	–	
Principal-to-principal trading of financial products	376,358	1,175,376	5,447	2,646,224	
Total historical transaction amounts	386,152	1,206,473	32,985	2,657,751	

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The decrease or increase in the historical transaction amounts of the transactions under the 2022 SWHYG MOU mentioned above was mainly due to the following reasons:

- a) Since March 2022, the U.S. Federal Reserve embarked on a series of interest rate hikes, which, combined with the prolonged weakness in China's domestic real estate sector and the sluggish growth of total retail sales of consumer goods amid pandemic-related disruptions. The SSE Composite Index, Shenzhen Stock Exchange Component Index, and ChiNext Index all experienced declines during the period from 2022 to 2023 as a result of the tight monetary policies maintained by global central banks in 2023, the elevated interest rates that constrained financing activities and persistent declines in domestic real estate sales and investment in the PRC. Thus, it led to a decrease in historical transaction amounts of certain services provided by the SWHYG Group to the Group;
- b) As referral fees are only payable upon the completion of the corporate finance transaction, but no such transaction was completed during the period from 2022 to 2025; In the past 3 years 2022-2024, the capital market of Hong Kong was highly sluggish, thanks to the high interest rate environment, bad economic performance due to the persistent impact from COVID and the lower-than-expected recovery after COVID. Also, the market fund flows had shifted from China market to the overseas markets, especially to United States and Japan markets, given the sentiment had been dragged on by the sluggish Chinese Property chain. The clients would prefer go listed in overseas instead of Hong Kong. Thus, no corporate finance services was completed in the past 3 years. As a result, nil was recorded in the supporting services in connection with corporate finance business between the Group and the SWHYG Group;
- c) The consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by the SWHYG Group increased in 2022-2023, due to a higher demand of such supporting services provided by the Group to the SWHYG Group, which is in line with the mission of the Group that it strives to be the execution platform for the SWHYG Group's overseas and cross-border operations, continues to enhance the domestic and international collaboration, leverages domestic brand and resource advantages to vigorously expand cross-border business; On the other hand, one of the wholly-owned subsidiary of the SWHYG Group has been developing its proprietary investment team since around 2023, this leads to the below-than-expected demand of asset management service from the Group by the SWHYG Group in 2024;
- d) Over the past three years, the utilization rate of asset management service provided by the Group to the SWHYG Group has been lower than anticipated, primarily due to the fact that the SWHYG Group increasingly conducting transactions directly with external counterparties as the SWHYG Group, as the issuers of QDII products, has accumulated sufficient experience over the years so that they are capable of making independent investment decisions and conduct transactions directly with external counterparties. This shift resulted in a decline in the number of transactions processed through the Group. Additionally, the Group's market-making activities are structured on a no-position basis, which limits its ability to act as a principal counterparty for clients (including the SWHYG Group) and confines trading activities mainly to back-to-back transactions with a limited product range, further affecting overall trading volume. Furthermore, the Group's cross-border business was constrained by the SWHYG

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Group's trading limits imposed internally due to risk control on various asset class and exposure, which restricted the addition of new positions in cross-border transactions, further suppressing trading volumes during this period;

With respect to principal-to-principal transactions in 2024, heightened volatility in market rates intensified investor concerns over uncertainties in the bond market. To mitigate risks from bond price fluctuations and rising financing costs, investors tended to reduce trading activity, leading to a significant decline in Bond Connect's trades volumes and a corresponding strain on market liquidity. As a result, the value of principal-to-principal transactions in 2024 dropped significantly compared to levels seen in 2022 and 2023;

- 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; and
- f) Notwithstanding 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 2025 to 2028 in light of the projected increase in possible demand for cross-border trading and services and the proposed expansion of business activities due to the global capital reassessment of the value of PRC assets.

5. ANNUAL CAPS

Set out below is a summary of the proposed Annual Caps in respect of the 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:

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	Four months ending 31 December 2025 <i>HK\$'000</i>	Year ending 31 December 2026 <i>HK\$'000</i>	2027 <i>HK\$'000</i>	Five months ending 31 May 2028 <i>HK\$'000</i>
Proposed Annual Caps for services relating to the SWHYG Transactions comprising				
Services provided by the SWHYG Group to the Group	32,686	104,231	111,104	49,495
(i) Brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	1,627	5,638	6,524	3,151
(ii) Investment operational supporting services from the SWHYG Group to the Group	6,617	22,720	26,054	12,472
(iii) Research supporting services from the SWHYG Group to the Group	8,000	24,000	24,000	10,000
(iv) Corporate finance services from the SWHYG Group to the Group	16,442	51,873	54,526	23,872
Services provided by the Group to the SWHYG Group	24,769	87,687	101,601	57,104
(i) Brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	1,333	4,800	5,760	6,912
(ii) Investment operational supporting services relating to Hong Kong and overseas markets from the Group to the SWHYG Group	13,545	51,413	66,167	36,228
(iii) Corporate finance services from the Group to the SWHYG Group	9,891	31,474	29,674	13,964
Principal-to-principal trading of financial products	6,003,333	20,020,000	24,040,000	11,700,000
Annual Caps	6,060,788	20,211,918	24,252,705	11,806,599

LETTER FROM THE BOARD

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, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC). The Annual Caps in respect of the brokerage services provided by the SWHYG Group relating to the PRC capital markets 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 B-share brokerage services relating to the PRC capital markets and the non-Hong Kong securities brokerage commission income of the Group over the past 3 years (2022-2024); (ii) the anticipated business growth stemming from the global capital reassessment of the value of PRC assets, as demand for investments in China-related listed companies and market services is projected to rise; (iii) a projected annual growth rate of 15%, in light of the 22% increase in the non-Hong Kong securities brokerage commission income in the first quarter of 2025 as compared to the last quarter of 2024. The Group's non-Hong Kong securities brokerage commission income is used as the basis for this annual cap, rather than commission expenses, as the demand for the SWHYG Group's brokerage services from the Group originates from client demand for the Group's brokerage services, which in turn generates this income. Therefore, we believe projecting commission income to arrive at the annual cap is the most appropriate method because it provides a more robust and direct measure of the underlying client demand that drives the resulting expense. This approach aligns the annual cap directly with our business volume and is consistent with how we manage and forecast our business operations.

Investment operational supporting services from the SWHYG Group to the Group

With the continuous rollout of domestic policies to boost economic development and the gradual expansion of openness to overseas investors, including initiatives such as QFI, the Mainland-Hong Kong Mutual Recognition of Fund Programs, domestic commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC, these measures have created broader opportunities for international investors to participate in the PRC capital markets. In addition, 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. This presents a critical development opportunity for the Group to meet clients' diversified needs for the PRC market investments.

Other than the PRC market, the SWHYG Group has been actively developing and expanding its business in overseas markets and it will also provide supporting services to the Group for the overseas markets. The Directors consider it is 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 based on service fees

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and following factors: (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 approximately 15% in service fees taking into account the expected rise in demand for such services from the Group and the increase in costs due to inflation; (iii) the increased demand of the supporting services for the PRC market due to the increasing market demand and the enhanced business cooperation with the SWHYG Group; and (iv) for the period from 2022 to 2024, the average commission and related handling fee income was approximately HK\$112 million, and it is expected that the respective payment for the supporting services for the PRC market will be around 15% of such average handling fee.

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 are not limited to the securities trading services resulting from the launch and the anticipated launch of the Onshore Investors Schemes (including but not limited to QDII, QDII 2, RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC). The Annual Caps in respect of such brokerage services are determined with reference to: (i) the potential increase in demand for the brokerage services to be provided by the Group to the SWHYG Group and its associates for the growing offshore investment business in connection with QDII, QDII 2 and RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC, which is expected to have an annual growth rate of approximately 20%; and (ii) the estimated 5% of Hong Kong securities commission income which will be contributed from the SWHYG Group after taking into account the average related Hong Kong securities commission income for the period from 2022 to 2024 was approximately HK\$71 million.

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

With the continuous rollout of domestic policies to boost economic development and the gradual expansion of openness to overseas investors, including initiatives such as QFI, the Mainland-Hong Kong Mutual Recognition of Fund Programs, domestic commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC, these measures have created broader opportunities for international investors to participate in the PRC capital markets. The Group will provide supporting services to the SWHYG Group in areas such as client referrals, business and market consultation services and personnel training services, resulting in growth of the relevant service fees.

The Annual Caps in respect of the Group's supporting services are based on (i) the advisory service fee income derives from such investment operational supporting services provided by the Group to the SWHYG Group's International Business Division after taking into account: (a) the historical staff cost in connection with the provision of the supporting services for the year ended 31 December 2024; (b) an estimated growth rate of 20%, in light of the approximate 24% increase in the Hong Kong securities brokerage commission income in the first quarter of 2025 as compared to the last quarter of 2024; (ii) the asset management services relating to Hong Kong and overseas markets

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for asset management business after taking into account: (a) the historical income in connection with the provision of the asset management services for the year ended 31 December 2024; (b) an estimated growth rate of 20%, in light of the approximate 20% increase in the management fee income in the second half of 2024 as compared to the first half of 2024. The Group will be engaged to provide asset management services to manage the SWHYG Group's offshore capital investment by utilizing the expertise and experience in asset management of the Group; (iii) the historical amount of the outsourcing service income derived from providing logistics services by the Group to the SWHYG Group (including the dispatch of relevant professionals (e.g. the middle-office and back-office staff specialized in providing the related supporting service) after taking into account a growth rate of 50% aligning with the 2025 strategic plan which aims to deepen the cross-border cooperation between the Group and the SWHYG Group as well as the Group's internal key performance indicators set for wealth management business and securities brokerage business.

The following factors have also been considered: (i) the potential increase in number of customers participating in schemes such as QDII, QDII 2, RQDII, QFI, the Mainland-Hong Kong Mutual Recognition of Fund Programs, overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect Scheme, Shenzhen-Hong Kong Stock Connect and Cross-boundary WMC 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.

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) a prescribed sharing ratio of approximately 30% on the average related Hong Kong securities commission income (including futures and options) for the period from 2022 to 2024 amounting to approximately HK\$85 million.

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.

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The Annual Caps in respect of the provision of corporate finance services by the SWHYG Group to the Group are based on (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 service provided to the Group after taking into account (a) the historical corporate finance services fees paid to the SWHYG Group; (b) the 2025 strategic plan which aims to deepen the cross-border cooperation between the Group and the SWHYG Group; (c) the Group's potential 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, which is based on the number of projects completed in 2024 and a projected growth rate of 5%. The growth rate of 5% used in the above was determined with reference to the increase in (i) such income of the Group by 4.2% and (ii) number of projects by 5.7%, for the first quarter of 2025 as compared to the same period in 2024.

The Annual Caps in respect of the provision of corporate finance services by the Group to the SWHYG Group are based on (i) 30% of the corporate finance income of the Group for the year ended 31 December 2024 is estimated to derive from the provision of corporate finance services to the SWHYG Group after taking into account (a) the historical corporate finance income of the Group for the year ended 31 December 2024 and the expected portion of such income coming from the provision of corporate finance services to the SWHYG Group; (b) a projected annual growth rate of 10% given the 2025 strategic plan which aims to deepen the cross-border cooperation between the Group and the SWHYG Group as well as the Group's internal 2025 key performance indicator set for corporate finance business; (ii) estimated commission income in connection with the expected participation in offshore bond issuance of one of the wholly-owned subsidiaries of the SWHYG Group 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 expiry. The growth rate of 10% used in the above has also taken into account the factors of (i) the 28.4% year on year increase in corporate finance income of the Group for the year ended 31 December 2024; and (ii) the increase of 4.2% in corporate finance income of the Group in the first quarter of 2025 compared to the same period in 2024.

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

The principal-to-principal transactions between the SWHYG Group and the Group include, but are not limited to, derivative transactions (including, but not limited to, 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. For the detailed mechanism, please refer to page 9-10 under the subject "C. Principal-to-principal transactions of investment products".

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Among those financial products, we expected that the debt securities trading and the total return swap transactions contribute the majority of the principal-to-principal trading amounts. The Annual Caps for the transactions between the Group and the SWHYG Group are substantially based on:

(a) Debt securities trading

The expected transaction value of debt securities traded between the Group and the SWHYG Group which include (1) newly issued bonds in the primary market priced at their face value and (2) bonds traded in the secondary market through arm's length negotiations. The bonds are traded directly between the Group and the SWHYG Group, both acting as principals, through the market. The consideration paid/received for the debt securities traded is counted as part of the annual cap under this category. This results in a large in value annual cap to account for the overall consideration;

(b) Total return swap transactions (structured products trading)

The expected transaction value of total return swap transactions traded between the Group and the SWHYG Group, which comprises the notional amounts of underlying investments and the return (e.g. investment profit/loss, interest/dividend accrued, etc.) generated from the underlying investments (e.g. Hong Kong listed equities). These transaction values are counted as part of the annual cap under this category. As the notional amounts of the underlying investments are normally large and the returns of the underlying investments vary depending on the various factors such as market sentiment and interest rate forecasts, this results in a large in value annual cap;

The Annual Caps for the transactions between the Group and the SWHYG Group are determined with reference to the following factors:

- (i) The expectation that the transaction volumes to increase significantly over the next three years. Recent increase in average daily trading value of stocks listed on the Main Board of the Stock Exchange was noted, from HK\$99.3 trillion to HK\$121.5 trillion for the first three quarters of 2024, to HK\$186.8 trillion in the last quarter of 2024, and further to HK\$242.7 trillion in the first quarter of 2025. It has shown a clear upward momentum, and we anticipate a further pickup following the resolution of US election-related uncertainties and the commencement of the expected interest rate cut cycle;
- (ii) The expansion of the trading team will support broader product coverage and increased activity, including a higher frequency and expanding trading volume of ad-hoc transactions with the SWHYG Group; and

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- (iii) The proposed growth in the annual caps for 2026 and 2027 are driven by the anticipated significant capital market recovery, as evidenced by the actual result for the five months ended 31 May 2025. Our transaction amounts for the first five months of 2025 reached HK\$2,646.2 million, a sharp rebound from previous periods. This recent performance provides a new, more realistic basis for our forecasts. The annual caps in 2026 and 2027 are based on this actual results in 2025, combined with anticipated continued market momentum.

Given these factors, we respectfully submit that the trading cap for the Group should be set based on forward-looking business growth projections rather than referencing historical figures from the past three years, which were impacted by temporary and extraordinary market and regulatory conditions.

The Annual Caps of the principal-to-principal trading category is relatively large in value because the estimated amount of the gain or loss attributable to the clients of the SWHYG Group in offshore trading is estimated to be large in terms of monetary value after taking into account the large expected trading volume attributable to the clients of the SWHYG Group and 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. Moreover, the transaction value of debt securities traded between the Group and the SWHYG Group is normally large in value as well. Therefore, the entire annual cap for this category is relatively large in value.

No material reliance on the SWHYG Group

Despite the high revenue ratio of the annual cap arising from the services provided by the Group to the SWHYG Group as compared to the revenue of the Group for the year ended 31 December 2024, the Directors are of the view that there is no material reliance on the SWHYG Group on the following grounds:

- (i) According to the latest published annual report of the Group, the revenue of the Group for the year ended 31 December 2024 amounted to approximately HK\$55.9 million. In which, a loss from a consolidated investment fund from investment business of HK\$436.6 million due to the business valuation adjustment was included. Such loss significantly lowered the revenue of the year resulting in the high revenue ratio in 2024.

In order to assess the reliance on the SWHYG Group fairly and reasonably, such impact has to be excluded. We assess it in the following two ways: (1) If such loss is excluded, the revenue of 2024 would become approximately HK\$491.5 million, which would result in a revenue ratio of 21% (using the highest annual cap among all the years); (2) By averaging the past 5 year's revenue to avoid the distorting impact from a particular event, the average revenue of past 5 year (i.e. 2020-2024, without any adjustments) amounted to approximately HK\$533.2 million, which would result in a revenue ratio of 19% (using the highest annual cap among all the years). In both ways, the results are considered as insignificant.

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- (ii) In addition, the expected improvement in the Group's performance as discussed above will result in the annual cap accounting for a further lower percentage to the Group's operation results and thereby lessen any reliance impact.
- (iii) The Proposed Annual Caps serve as the maximum limit of potential transaction amounts to be conducted between the Group and the SWHYG Group. There is also no commitment and no obligation by either party to the 2025 SWHYG MOU. It merely provides both the SWHYG Group with an additional option in sourcing the related services. The SWHYG Group has its own discretion to negotiate with independent third parties and select its service provider with a better offer.

7. INTERNAL CONTROL

The terms of the 2025 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, 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 services 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 services fees, the corporate finance services fees, the asset management services 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.

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- (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 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 swap 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 swap transactions.
- (6) The reasonableness of the estimated man-days/man-hours for provision of supporting services will be verified by the Company's independent departments (e.g. internal audit department, 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(s) governing the transactions; and
 - (iv) have not exceeded the cap disclosed in previous announcement(s).

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(s) governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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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 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 continue to benefit from more 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.

The terms of the 2025 SWHYG MOU are arrived at after arm's length negotiations between the Company and SWHYG. The Directors consider that the SWHYG Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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 loans business; and (v) investment and other business.

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 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.

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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 for the SWHYG Transactions is more than HK\$10 million respectively, the 2025 SWHYG MOU is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A Board resolution on 27 May 2025 and 29 July 2025 had approved, among other things, the 2025 SWHYG MOU. Among all the Board of Directors, Ms. Wu Meng, Mr. Tan Weijun, Mr. Liang Jun and Mr. Hu Jing were considered to be materially interested in the SWHYG Transactions and they voluntarily abstained from voting on the relevant Board resolutions approving the 2025 SWHYG MOU and related matters.

11. GENERAL

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

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 1,013,131,792 Shares, representing approximately 64.9 % 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. Kwok Lam Kwong Larry, Mr. Liu Chijin and Ms. Chiu Lai Kuen Susanna 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.

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12. THE EGM AND THE NOTICE

A notice convening the EGM to be held at Level 6, Three Pacific Place, 1 Queen's Road East, Hong Kong, on Monday, 1 September 2025 at 10:00 a.m. is set out on pages 66 to 67 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 Company's Share Registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible but in any event not later than 48 hours excluding Sunday before the time appointed for holding of the EGM (i.e. 10:00 a.m. on Friday, 29 August 2025) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

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.

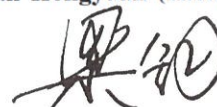
14. RECOMMENDATION

You are advised to read carefully the letter from the Independent Board Committee as set out on pages 31 and 32 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 33 to 58 of this circular, considers that (i) the Continuing Connected Transactions contemplated under the 2025 SWHYG MOU are conducted in the ordinary and usual course of business of the Group; (ii) the 2025 SWHYG MOU is in the interests of the Group and the Shareholders as a whole; (iii) the terms of the 2025 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 2025 SWHYG MOU and the transactions contemplated thereunder, as well as the Annual Caps.

15. ADDITIONAL INFORMATION

Your attention is drawn to the additional information as 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