
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

CONTINUING CONNECTED TRANSACTIONS

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

ALTUS CAPITAL LIMITED

A letter from the Independent Board Committee of Shenwan Hongyuan (H.K.) Limited (the “Company”) is set out on pages 20 and 21 of this circular. A letter from Altus Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 22 to 43 of this circular.

A notice convening an extraordinary general meeting of the Company (the “EGM”) to be held at the TALK Meeting Room at 2nd Floor, OZO Wesley Hong Kong at 22 Hennessy Road, Wanchai, Hong Kong, on Friday, 13 May 2016 at 10:00 a.m. is set out on pages 49 to 50 of this circular. Whether or not you are able to attend the EGM, you are advised to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the Company’s registered office at Level 19, 28 Hennessy Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjourned meeting if you so wish.

25 April 2016

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	20
Letter from Altus Capital Limited	22
Appendix – General Information	44
Notice of Extraordinary General Meeting	49

DEFINITIONS

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

“2013 SWS Research MOU”	the memorandum of understanding entered into between the Company and SWS Research on 28 March 2013, details of which have been disclosed in the announcement of the Company dated 28 March 2013
“2013 SWHYG MOU”	the memorandum of understanding entered into between the Company and SWHYG on 28 March 2013, details of which have been disclosed in the announcement of the Company dated 28 March 2013
“2016 SWS Research MOU”	the memorandum of understanding entered into between the Company and SWS Research on 1 April 2016
“2016 SWHYSC MOU”	the memorandum of understanding entered into between the Company and SWHYSC on 1 April 2016
“Annual Cap(s)”	each of the proposed annual cap amounts of the Continuing Connected Transactions for the seven months ending 31 December 2016, each of the two years ending 31 December 2018 and the five months ending 31 May 2019, as set out in the paragraph headed “Annual Caps” in this announcement
“associates”	shall have the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“B-to-H Share Conversion”	conversion of B shares (shares denominated in RMB, subscribed and traded in foreign currencies on the stock exchanges in the PRC) to H shares (foreign shares registered in the PRC and traded on The Stock Exchange of Hong Kong Limited) of companies established in the PRC
“Company”	Shenwan Hongyuan (H.K.) Limited
“Connected Person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	SWHYSC Transactions and SWS Research Transactions
“Directors”	the directors of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of, among other things, approving the 2016 SWHYSC MOU, the 2016 SWS Research MOU and the transactions contemplated thereunder as well as the Annual Caps
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Independent Board Committee”	the independent board committee of the Company, comprising the independent non-executive Directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin, formed to advise the Independent Shareholders in relation to the terms of the 2016 SWHYSC MOU and the 2016 SWS Research MOU as well as the Annual Caps
“Independent Financial Adviser” or “Altus Capital Limited”	Altus Capital Limited, a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant matters at the EGM
“Latest Practicable Date”	19 April 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mutual Recognition of Hong Kong and China Fund Programs”	a mutual recognition fund platform for Hong Kong-domiciled funds to be sold in the PRC and for funds from the PRC to be sold in Hong Kong (subject to relevant authorities’ approvals)
“Offshore Investors Schemes”	the schemes under which offshore investors are permitted to invest directly in the PRC capital markets (subject to relevant authorities’ approvals)
“Onshore Investors Schemes”	the schemes under which the PRC onshore investors are permitted to invest directly in Hong Kong and overseas capital markets (subject to relevant authorities’ approvals)

DEFINITIONS

“Previous Annual Caps”	the maximum aggregate annual value of various payments receivable from, or payable to SWHYSC Group and/or SWS Research arising from the continuing connected transactions under the 2013 SWHYG MOU and the 2013 SWS Research MOU
“PRC” or “China”	The People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macao Special Administrative Region of PRC and Taiwan
“QDII Scheme”	the qualified domestic institutional investors scheme of the PRC
“QDII 2 Scheme”	the new qualified domestic institutional investors scheme of the PRC (subject to relevant authorities’ approvals)
“QFII Scheme”	the qualified foreign institutional investors scheme of the PRC
“QFII 2 Scheme”	the new qualified foreign institutional investors scheme of the PRC (subject to relevant authorities’ approvals)
“RMB”	Renminbi, the lawful currency of the PRC
“RQFII Scheme”	the RMB Qualified Foreign Institutional Investors scheme of the PRC
“RQFII 2 Scheme”	the new RMB Qualified Foreign Institutional Investors scheme of the PRC (subject to relevant authorities’ approvals)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“SWHYG”	Shenwan Hongyuan Group Co., Ltd. (formerly known as Shenyin & Wanguo Securities Co., Ltd. until 19 January 2015)
“SWHYG Group”	SWHYG and its subsidiaries
“SWHYG Transactions”	transactions arising from the cooperation between SWHYG Group and the Group pursuant to the 2013 SWHYG MOU

DEFINITIONS

“SWS Research”	SWS Research Co., Ltd.
“SWS Research Transactions”	transactions arising from the cooperation between SWS Research and the Group pursuant to the 2016 SWS Research MOU
“SWHYSC”	Shenwan Hongyuan Securities Co., Ltd
“SWHYSC Group”	SWHYSC and its subsidiaries
“SWHYSC Transactions”	transactions arising from the cooperation between SWHYSC Group and the Group pursuant to the 2016 SWHYSC MOU
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD



SHENWAN HONGYUAN (H.K.) LIMITED

申萬宏源（香港）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

Executive Directors:

Mr. Zhu Minjie (*Chairman*)

Mr. Lu Wenqing

Mr. Chen Xiaosheng

Mr. Guo Chun (*Chief Executive Officer*)

Mr. Lee Man Chun Tony

Registered office:

Level 19

28 Hennessy Road

Hong Kong

Non-executive Director:

Mr. Zhang Lei

Independent non-executive Directors:

Mr. Ng Wing Hang Patrick

Mr. Kwok Lam Kwong Larry

Mr. Zhuo Fumin

25 April 2016

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the announcement published by the Company on 28 March 2013, the circular issued by the Company on 22 April 2013 and the announcement published by the Company on 1 April 2016.

The continuing connected transactions contemplated under the 2013 SWHYG MOU and the 2013 SWS Research MOU were approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 10 May 2013. The 2013 SWHYG MOU and the 2013 SWS Research MOU will expire on 31 May 2016.

LETTER FROM THE BOARD

On 1 April 2016, the Company entered into (i) the 2016 SWHYSC MOU in relation to the SWHYSC Transactions with SWHYSC to replace the 2013 SWHYG MOU; and (ii) the 2016 SWS Research MOU in relation to the SWS Research Transactions with SWS Research to replace the 2013 SWS Research MOU. The 2016 SWHYSC MOU and the 2016 SWS Research MOU shall be effective from 1 June 2016 upon the obtaining of the approval of the Independent Shareholders at the EGM and shall expire on 31 May 2019.

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

2. CONTINUING CONNECTED TRANSACTIONS

I. 2016 SWHYSC MOU

- | | | |
|----------|---|--|
| Date | : | 1 April 2016 |
| Parties | : | (1) the Company |
| | | (2) SWHYSC |
| Term | : | 1 June 2016 to 31 May 2019 |
| Services | : | The scope of services consists of the following: |
- (i) services provided by the SWHYSC Group to the Group relating to brokerage services in the PRC capital markets, which include, but are not limited to, B-share trading services and potential securities trading services upon the anticipated introduction of the Offshore Investors Schemes (including but not limited to the QFII2 Scheme and RQFII2 Scheme);
 - (ii) supporting services provided by the SWHYSC Group to the Group for developing the PRC market, which include mainly client referrals, business and market consultation services and personnel training services in support of the Group's development and operations including but not limited to the launch and the anticipated launch of the Offshore Investors Schemes, such as the QFII Scheme, QFII2 Scheme, RQFII Scheme, RQFII2 Scheme, Mutual Recognition of Hong Kong and China Fund Programs and overseas commodity futures, etc.;

LETTER FROM THE BOARD

- (iii) brokerage services in Hong Kong and overseas capital markets provided by the Group to the SWHYSC Group, which consist of securities trading services in relation to the launch and the anticipated launch (subject to relevant authorities' approvals) of the Onshore Investors Schemes which include, but are not limited to, the QDII Scheme and QDII2 Scheme;
 - (iv) Hong Kong and overseas market supporting services provided by the Group to the SWHYSC Group, which include mainly client referrals, business and market consultation services and personnel training services in support of the development and operation of the SWHYSC Group. Services coverage include, but are not limited to, the launch and the anticipated launch of the Onshore Investors Schemes such as the QDII Scheme, QDII2 Scheme, Mutual Recognition of Hong Kong and China Fund Programs and overseas commodity futures etc, as well as the launch and the anticipated launch of the Offshore Investors Schemes such as the QFII Scheme, QFII2 Scheme etc.;
 - (v) supporting services provided by the Group to the SWHYSC Group which include, but are not limited to, information services and client referrals in connection with corporate finance business, the scope of which includes, but is not limited to, corporate finance projects, merger and acquisition projects and financial advisory projects; and
 - (vi) supporting services provided by the SWHYSC Group to the Group which include, but are not limited to, information services and client referrals in connection with corporate finance business, the scope of which includes, but is not limited to, corporate finance projects, merger and acquisition projects and financial advisory projects.
- Service fees : (i) The brokerage fees charged by the SWHYSC Group to the Group relating to provision of brokerage services in connection with the PRC capital markets will be based on normal commercial principles including individual negotiation with reference to prevailing market rates and actual circumstances, and the most favourable rates charged by the SWHYSC Group to its existing clients. The pricing policy will be based on a fixed percentage (0.05%-0.10%) of the gross consideration of clients' trade turnover. Such fixed percentage will be the most favourable rates charged by the SWHYSC Group to its existing clients.

LETTER FROM THE BOARD

- (ii) The fees charged by the SWHYSC Group to the Group relating to the supporting services for developing the PRC market will be determined based on the actual costs incurred in connection with provision of services. The pricing policy will be based on actual time cost spent on this service charged by the SWHYSC Group to the Group. The actual time cost will be calculated based on an average hourly payroll of manpower multiplied by the actual number of hours spent on this service. The average hourly payroll will be a fixed monetary amount calculated by SWHYSC Group with reference to the actual monthly payroll of relevant staff in this service divided by the number of working hours in a month.
- (iii) The fees charged by the Group to the SWHYSC Group relating to the brokerage services for Hong Kong and overseas capital markets will be determined based on normal commercial principles including individual negotiation with reference to market levels and actual circumstances, and the prevailing market rates charged by the Group to its existing clients. The pricing policy will be based on a fixed percentage (0.1%-0.2%) of the gross consideration of clients' trade turnover. Such fixed percentage will be the prevailing market rates charged by the Group to its existing clients.
- (iv) The fees charged by the Group to the SWHYSC Group relating to the supporting services for developing Hong Kong and overseas markets will be determined based on normal commercial principles (including individual negotiation with reference to market levels and actual circumstances) or the actual costs incurred in connection with provision of services. The pricing policy will be based on a fixed percentage (10%-20%) of the after-tax actual relevant commission earned by the SWHYSC Group.
- (v) The fees charged by the Group to the SWHYSC Group relating to the corporate finance business will be determined based on normal commercial principles (including with reference to market conventions and actual circumstances). The pricing policy will be based on a fixed percentage (8%-40%) of the revenue from third party customers for each project. Such fixed percentage will vary from one project to another depending on the amount of work performed by the Group and will be agreed in writing.

LETTER FROM THE BOARD

- (vi) The fees charged by the SWHYSC Group to the Group relating to the corporate finance business will be determined based on normal commercial principles (including with reference to market conventions and actual circumstances). The pricing policy will be based on a fixed percentage (8%-40%) of the revenue from third party customers for each project. Such fixed percentage will vary from one project to another depending on the amount of work performed by the SWHYSC Group and will be agreed in writing.

II. 2016 SWS Research MOU

- Date : 1 April 2016
- Parties : (1) the Company
(2) SWS Research
- Term : 1 June 2016 to 31 May 2019
- Services : Scope of services consists of the following:
- (i) provision of various research materials to the Group by SWS Research, which include, but are not limited to, Hong Kong and PRC listed company research reports, industry sector reports, fixed income product research reports, derivative product research reports, investment strategy reports and economic analysis reports, as well as supporting services from SWS Research for investor meetings organised by the Group; and
- (ii) supporting services provided by SWS Research to the Group, which include, but are not limited to, information services and client referrals in connection with corporate finance business, the scope of which includes, but is not limited to, corporate finance projects, merger and acquisition projects and financial advisory projects.
- Service fees : (i) The fees charged by SWS Research to the Group for the research materials and supporting services relating to research will be determined based on normal commercial principles (including market conventions and actual circumstances). The pricing policy will be based on a fixed monetary consideration for a six-month period which will be agreed in writing.

LETTER FROM THE BOARD

- (ii) The fees charged by SWS Research to the Group for the supporting services relating to corporate finance will be determined based on normal commercial principles (including market conventions and actual circumstances). The pricing policy will be based on a fixed monetary consideration per project which will be agreed in writing.

LETTER FROM THE BOARD

3. PREVIOUS ANNUAL CAPS

Set out below are the Previous Annual Caps:

	Seven months ending 31 December 2013 <i>HK\$'000</i>	Year ending 31 December 2014 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>	Five months ending 31 May 2016 <i>HK\$'000</i>
Annual Caps for services relating to the SWHYG Transactions comprising:	130,459	268,731	322,978	161,478
(i) brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	23,920	49,200	59,040	29,520
(ii) supporting services for the PRC market from the SWHYG Group to the Group	3,960	8,148	9,778	4,890
(iii) brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	25,300	52,400	63,360	31,680
(iv) supporting services relating to Hong Kong and overseas markets from the Group to the SWHYG Group	65,590	134,937	161,944	80,960
(v) supporting services in connection with corporate finance business from the Group to the SWHYG Group	6,789	13,966	16,760	8,380
(vi) supporting services in connection with corporate finance business from the SWHYG Group to the Group	4,900	10,080	12,096	6,048
Annual Caps for services relating to the SWS Research Transactions comprising:	19,600	40,320	48,384	24,190
(i) supporting services relating to research from SWS Research to the Group	17,500	36,000	43,200	21,600
(ii) supporting services in connection with corporate finance business from SWS Research to the Group	2,100	4,320	5,184	2,590
Previous Annual Caps	150,059	309,051	371,362	185,668

LETTER FROM THE BOARD

4. HISTORICAL TRANSACTION AMOUNTS

Set out below is a summary of the Group's historical transaction amounts of the SWHYG Transactions and the SWS Research Transactions for the seven months ended 31 December 2013 and each of the two years ended 31 December 2015:

	Seven months ended 31 December 2013 <i>HK\$'000</i> (Audited)	Year ended 31 December 2014 <i>HK\$'000</i> (Audited)	2015 <i>HK\$'000</i> (Audited)
Historical transaction amounts for services relating to the SWHYG Transactions comprising:	1,357	6,029	22,963
(i) brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	1,357	2,026	4,669
(ii) supporting services for the PRC market from the SWHYG Group to the Group	–	2,500	5,800
(iii) brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	–	–	–
(iv) supporting services relating to Hong Kong and overseas markets from the Group to the SWHYG Group	–	1,300	12,494
(v) supporting services in connection with corporate finance business from the Group to the SWHYG Group	–	203	–
(vi) supporting services in connection with corporate finance business from the SWHYG Group to the Group	–	–	–
Historical transaction amounts for services relating to the SWS Research Transactions comprising:	4,726	5,000	11,500
(i) supporting services relating to research from SWS Research to the Group	4,583	5,000	11,500
(ii) supporting services in connection with corporate finance business from SWS Research to the Group	143	–	–
Total historical transaction amounts	6,083	11,029	34,463

LETTER FROM THE BOARD

5. ANNUAL CAPS

Set out below is a summary of the Annual Caps in respect of the proposed Continuing Connected Transactions for the seven months ending 31 December 2016, each of the two years ending 31 December 2018, and the five months ending 31 May 2019:

	Seven months ending 31 December 2016 <i>HK\$'000</i>	Year ending 31 December 2017 <i>HK\$'000</i>	31 December 2018 <i>HK\$'000</i>	Five months ending 31 May 2019 <i>HK\$'000</i>
Annual Caps for services relating to the SWHYSC Transactions comprising:	63,251	116,020	124,142	55,346
(i) brokerage services relating to the PRC capital markets from the SWHYSC Group to the Group	8,083	14,826	15,864	7,073
(ii) supporting services for the PRC market from the SWHYSC Group to the Group	8,801	16,143	17,273	7,701
(iii) brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYSC Group	5,280	9,686	10,364	4,620
(iv) supporting services relating to Hong Kong and overseas markets from the Group to the SWHYSC Group	24,343	44,651	47,777	21,300
(v) supporting services in connection with corporate finance business from the Group to the SWHYSC Group	9,254	16,975	18,163	8,098
(vi) supporting services in connection with corporate finance business from the SWHYSC Group to the Group	7,490	13,739	14,701	6,554
Annual Caps for services relating to the SWS Research Transactions comprising:	21,749	39,900	42,674	19,005
(i) supporting services relating to research from SWS Research to the Group	18,482	33,900	36,274	16,172
(ii) supporting services in connection with corporate finance business from SWS Research to the Group	3,267	6,000	6,400	2,833
Annual Caps	85,000	155,920	166,816	74,351

LETTER FROM THE BOARD

6. BASIS OF THE ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS

In determining the Annual Caps, the Company has made reference to previous transactions. The Company considers that the low utilization of Previous Annual Caps is due to factors such as unexpected decline in market activities and delay in implementation of various governmental policies (e.g. the anticipated scheme under which overseas individual investors are permitted to invest directly in securities traded on the PRC A-share markets). In consideration of the various reforms of the PRC capital markets that has been recently launched or fermenting (such as relaxation on the existing QFII Scheme and RQFII Scheme, anticipated launch of the QFII2 Scheme and RQFII2 Scheme, B-to-H Share Conversion, Mutual Recognition of Hong Kong and China Fund Programs), the Company further considers that in determining the Annual Caps, it is more appropriate to make reference to the enhanced co-operation with the SWHYG Group/SWS Research as brought about by various reform programs launched or to be launched.

In addition, the Company has applied an annual growth rate of 7% after making reference to the estimated growth rate of gross domestic product in PRC of 7% per annum. Based on the research, the aforesaid growth rate is in line with the PRC government's growth target and the Company is therefore of the view that this is a reasonable basis for prediction.

In light of the above, the Directors consider that the basis of determining the Annual Caps is fair and reasonable.

Brokerage services relating to PRC capital markets from the SWHYSC Group to the Group

The brokerage services relating to the PRC capital markets mainly represents the brokerage services related to the B-share and the anticipated introduction of the Offshore Investors Schemes (including but not limited to the QFII2 Scheme and RQFII2 Scheme). The Annual Caps in respect of the brokerage services relating to the PRC market are determined with reference to (i) the historical transaction amounts of the B-share brokerage services provided by the SWHYSC Group to the Group and the potential increase in the demand for brokerage services due to B-to-H Share Conversion; (ii) the potential increase in demand for the brokerage services to be provided by the SWHYSC Group to the Group upon the anticipated introduction of the Offshore Investors Schemes; and (iii) the estimated annual growth rate of 7% in service fees taking into account the anticipated growth of the PRC capital markets.

Supporting services for PRC market from the SWHYSC Group to the Group

With the development of the PRC economy, many measures allowing overseas investors to invest in the PRC capital markets have been launched or fermenting, including but not limited to the QFII2 Scheme, RQFII2 Scheme and the Mutual Recognition of Hong Kong and China Fund Programs. In addition, in view of the fact that the central government of the PRC is developing a cross-border special financial services region in Qianhai of Shenzhen, the Group believes that there will be more opportunities allowing investors in the Mainland and Hong Kong to invest directly in their respective markets. The Directors consider it beneficial to market development, cost effective and less time consuming to engage the SWHYSC 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 determined

LETTER FROM THE BOARD

based on (i) the prevailing market rates and the estimated costs to be incurred in connection with provision of the supporting services; and (ii) the estimated annual growth rate of 7% 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.

Brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYSC 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 Scheme (including but not limited to the QDII Scheme and QDII2 Scheme). 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 SWHYSC and its associates when they launch their anticipated offshore investment business in connection with the QDII Scheme and QDII2 Scheme; and (ii) the estimated annual growth rate of approximately 7% in service fees taking into account the anticipated growth in demand for such services.

Supporting services relating to Hong Kong and overseas markets from the Group to the SWHYSC Group

With the development of the PRC economy, many measures allowing overseas investors to invest in the PRC capital markets and the PRC investors to invest in overseas capital markets have been launched or fermenting, including but not limited to the QDII Scheme, QDII2 Scheme, QFII Scheme and QFII2 Scheme. Regardless of whether the relevant measures are in the planning or implementation stage, the Group will provide supporting services to the SWHYSC Group in areas such as client referrals, business and market consultation services and personnel training services, resulting in a growth of the relevant service fees. The Annual Caps in respect of the Group's supporting services are determined based on (i) the potential increase in number of customers participating in schemes such as the QFII Scheme and QFII2 Scheme, and the potential growth in the corresponding commission income; (ii) the prevailing market rates and the estimated costs to be incurred in connection with provision of the supporting services; and (iii) the estimated annual growth rate of 7% 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.

Supporting services in connection with corporate finance business from the Group to the SWHYSC Group and supporting services in connection with corporate finance business from the SWHYSC Group to the Group

In view of the increase in cross-border business in relation to securities listings, the Group and the SWHYSC Group could broaden co-cooperation in respect of corporate finance business, the scope of which includes, but is not limited to, provision of information services and client referrals. The Annual Caps in respect of the supporting services for corporate finance business are determined with reference to (i) the estimated level of services to be provided by each of the Group and the SWHYSC

LETTER FROM THE BOARD

Group; and (ii) the estimated annual growth rate of approximately 7% in service fees taking into account the fund raising amounts of the PRC companies listed in Hong Kong and the PRC markets in recent years as well as the anticipated growth of the respective markets.

Supporting services relating to research from SWS Research 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 is actively developing 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 Shanghai, the PRC, SWS Research is principally engaged in securities research business, primarily covering the PRC listed companies. Given the significant and strong research capability of SWS Research, the Directors consider that the Group's service level can be improved through utilizing SWS Research's resources and therefore it is appropriate to engage it to provide such products and services. The Annual Caps in respect of the SWS Research's supporting services for research are determined with reference to (i) the historical transaction amounts of the SWS Research Transactions; and (ii) the estimated annual growth rate of approximately 7% 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.

Supporting services in connection with corporate finance business from SWS Research to the Group

In view of the increase in cross border business in relation to securities listings, SWS Research shall provide supporting services in respect of corporate finance business to the Group, the scope of which mainly includes, but is not limited to, the provision of information services and client referrals. The Annual Caps in respect of the SWS Research supporting services for corporate finance business are determined with reference to (i) the work and the estimated level of services to be provided by the SWS Research; and (ii) the estimated annual growth rate of approximately 7% in service fees taking into account the fund raising amounts of the PRC companies listed in Hong Kong markets in recent years as well as the anticipated growth of Hong Kong markets.

7. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors believe that the entering into of the 2016 SWHYSC MOU and the 2016 SWS Research MOU will serve as a platform for more extensive cooperation with the SWHYSC Group and SWS Research. The Group, the SWHYSC Group and SWS Research 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 the entering into of the 2016 SWHYSC MOU and the 2016 SWS Research MOU is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The terms of the 2016 SWHYSC MOU and the 2016 SWS Research MOU were arrived at after arm's length negotiations between the Company and SWHYSC or SWS Research (as the case may be). The Directors consider that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

8. INFORMATION ON THE GROUP, SWHYSC AND SWS RESEARCH

The Group is principally engaged in the brokerage business, corporate finance business, asset management business, financing and loans business, and investment and other business.

SWHYSC is principally engaged in securities trading, securities broking and dealing, and provision of investment banking and financial advisory services in the PRC.

SWS Research is principally engaged in securities research business covering the PRC and Hong Kong markets.

9. IMPLICATIONS UNDER THE LISTING RULES

As SWHYG is deemed to be beneficially interested in 50.98% of the issued share capital of the Company and a substantial shareholder of the Company, and SWHYSC is a 100%-owned subsidiary of SWHYG, and SWS Research is a 90%-owned subsidiary of SWHYG, each of SWHYSC and SWS Research is a connected person of the Company under the Listing Rules. As such, the SWHYSC Transactions and the SWS Research Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Taking into account SWHYSC and SWS Research are parties associated with each other, the SWHYSC Transactions and the SWS Research Transactions are aggregated. Since each of 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 SWHYSC Transactions and the SWS Research Transactions in aggregate exceeds 5% and the amount of the largest Annual Cap is more than HK\$10million, the 2016 SWHYSC MOU and the 2016 SWS Research MOU are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A Board meeting held on 4 March 2016 had approved, among other things, the 2016 SWHYSC MOU and the 2016 SWS Research MOU. Messrs. Chu Xiaoming (the then director), Lu Wenqing, Guo Chun and Zhang Lei were considered to be interested in the SWHYSC Transactions and the SWS Research Transactions for the reason that each of them was a common director of the Company and certain members of SWHYG. Accordingly, Messrs. Chu Xiaoming (the then director), Lu Wenqing, Guo Chun and Zhang Lei abstained from voting on the relevant Board resolution approving the 2016 SWHYSC MOU, the 2016 SWS Research MOU and related matters.

LETTER FROM THE BOARD

10. GENERAL

The terms of the 2016 SWHYSC MOU and the 2016 SWS Research MOU were arrived at after arm's length negotiations between the Company and SWSC or SW Research (as the case may be). In order to ensure the pricings of each type of transactions are on normal commercial terms, the Company has established a series of internal control procedures, including:

- (i) On an annual basis or more regularly as necessary, the Company will procure other quotations for similar transaction values from independent brokers for comparisons of the brokerage rates charged; and
- (ii) The reasonableness of the estimated man-days/man-hours for supporting services will be verified by the Company's independent departments (e.g. Internal Audit, Finance).

The Directors consider that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Company proposes to seek approval from the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps at the EGM. Voting at the EGM will be conducted by poll. SWHYG and its associates who in aggregate control or are entitled to exercise control over the voting right in respect of 405,808,569 Shares, representing 50.98% 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.

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the terms of the 2016 SWHYSC MOU and the 2016 SWS Research MOU as well as the Annual Caps. Altus Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

11. THE EGM

A notice convening the EGM to be held at the TALK Meeting Room at 2nd Floor, OZO Wesley Hong Kong at 22 Hennessy Road, Wanchai, Hong Kong, on Friday, 13 May 2016 at 10:00 a.m. is set out on pages 49 to 50 of this circular.

A form of proxy for use at the EGM is enclosed herewith and is also published on the website of the Stock Exchange (<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 registered office at Level 19, 28 Hennessy Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjourned meeting if you so wish.

LETTER FROM THE BOARD

12. 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 (<http://www.hkexnews.hk>) and the website of the Company (<http://www.swhyhk.com>) after the conclusion of the EGM.

13. RECOMMENDATION

You are advised to read carefully the letter from the Independent Board Committee set out on pages 20 and 21 of this circular. The Independent Board Committee, having taken into account the advice of Altus Capital Limited, the text of which is set out on pages 22 to 43 of this circular, considers that (i) the Continuing Connected Transactions contemplated under the 2016 SWHYSC MOU and the 2016 SWS Research MOU fall in the ordinary and usual course of business of the Group; (ii) the 2016 SWHYSC MOU and the 2016 SWS Research MOU are in the interests of the Group and the Shareholders as a whole; (iii) the terms of the 2016 SWHYSC MOU and the 2016 SWS Research 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 2016 SWHYSC MOU, the 2016 SWS Research MOU and the transactions contemplated thereunder as well as the Annual Caps.

14. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Shenwan Hongyuan (H.K.) Limited
GUO Chun
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



SHENWAN HONGYUAN (H.K.) LIMITED

申萬宏源（香港）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

25 April 2016

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

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 25 April 2016 (the “Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the 2016 SWHYSC MOU, the 2016 SWS Research MOU, the terms of the transactions contemplated thereunder as well as the Annual Caps and to advise the Independent Shareholders whether, in our opinion, the terms of the 2016 SWHYSC MOU, the 2016 SWS Research MOU, the terms of the transactions contemplated thereunder as well as the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Altus Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 22 to 43 of the Circular.

Having considered the advice given by, and the principal factors and reasons taken into consideration by Altus Capital Limited in arriving at its advice, we consider that (i) the Continuing Connected Transactions contemplated under the 2016 SWHYSC MOU and the 2016 SWS Research MOU fall in the ordinary and usual course of business of the Group; (ii) the 2016 SWHYSC MOU and the 2016 SWS Research MOU are in the interests of the Company and the Shareholders as a whole; (iii) the terms of the 2016 SWHYSC MOU and the 2016 SWS Research MOU are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; and (iv) the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2016 SWHYSC MOU, the 2016 SWS Research MOU and the transactions contemplated thereunder as well as the Annual Caps.

Yours faithfully,

For and on behalf of
the Independent Board Committee

Ng Wing Hang Patrick
*Independent non-executive
Director*

Kwok Lam Kwong Larry
*Independent non-executive
Director*

Zhuo Fumin
*Independent non-executive
Director*

LETTER FROM ALTUS CAPITAL LIMITED

The following is the text of a letter of advice from Altus Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions as contemplated under the 2016 SWHYSC MOU and 2016 SWS Research MOU and the Annual Caps related thereto, which has been prepared for the purpose of incorporation in this circular.

ALTUS.

21 Wing Wo Street
Central
Hong Kong

25 April 2016

To the Independent Board Committee and the Independent Shareholders
Shenwan Hongyuan (H.K.) Limited
Level 19
28 Hennessy Road
Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions as contemplated under the 2016 SWHYSC MOU and the 2016 SWS Research MOU and the Annual Caps related thereto, details of which are set out in the “Letter from the Board” contained in the circular dated 25 April 2016 (the “Circular”) to the Shareholders, of which this letter (this “Letter”) forms part. Terms used in this Letter shall have the same meaning as those defined in the Circular unless the context requires otherwise.

On 1 April 2016, the Company entered into (i) the 2016 SWHYSC MOU in relation to the SWHYSC Transactions with SWHYSC to replace the 2013 SWHYG MOU; and (ii) the 2016 SWS Research MOU in relation to the SWS Research Transactions with SWS Research to replace the 2013 SWS Research MOU. The 2016 SWHYSC MOU and the 2016 SWS Research MOU shall be effective from 1 June 2016 upon the obtaining of the approval of the Independent Shareholders at the EGM and shall expire on 31 May 2019.

LISTING RULES IMPLICATION

As SWHYG is deemed to be beneficially interested in 50.98% of the issued share capital of the Company and is a substantial shareholder of the Company, and SWHYSC is a 100%-owned subsidiary of SWHYG, and SWS Research is a 90%-owned subsidiary of SWHYG, each of SWHYSC and SWS Research

LETTER FROM ALTUS CAPITAL LIMITED

is a connected person of the Company under the Listing Rules. As such, the SWHYSC Transactions and the SWS Research Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Taking into account SWHYSC and SWS Research are parties associated with each other, the SWHYSC Transactions and the SWS Research Transactions are aggregated. Since each of 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 SWHYSC Transactions and the SWS Research Transactions in aggregate exceeds 5% and the amount of the largest Annual Cap is more than HK\$10 million, the 2016 SWHYSC MOU and the 2016 SWS Research MOU are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises all three independent non-executive Directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin has been established to consider and to give advice and recommendation to the Independent Shareholders on (i) whether the terms of the Continuing Connected Transactions contemplated under the 2016 SWHYSC MOU and 2016 SWS Research MOU fall in the ordinary and usual course of business of the Group; (ii) whether the Continuing Connected Transaction are in the interests of the Company and the Shareholders as a whole; (iii) whether the terms of the Continuing Connected Transaction are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders as concerned; (iv) whether the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned; and (v) how to vote at the EGM, taking into account the recommendation of the independent financial adviser.

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Continuing Connected Transactions contemplated under the 2016 SWHYSC MOU and 2016 SWS Research MOU fall in the ordinary and usual course of business of the Group; (ii) whether the Continuing Connected Transaction are in the interests of the Company and the Shareholders as a whole; (iii) whether the terms of the Continuing Connected Transaction are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders as concerned; (iv) whether the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned and (v) how the Independent Shareholders should vote in respect of the resolution relating thereto to be proposed at the EGM.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "Management"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the latest practical date of the Circular.

LETTER FROM ALTUS CAPITAL LIMITED

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

1.1 The Group

The Group is principally engaged in brokerage business, corporate finance business, asset management business, financing and loans business, and investment and other businesses.

1.2 Financial results of the Group

Below is a summary of selected information of the operating results of the Group for the two years ended 31 December 2014 and 2015 as extracted from the Company's annual report for the year ended 31 December 2015 (the "2015 Annual Report").

	For the year ended 31 December	
	2014	2015
	HK\$'000	HK\$'000
Revenue	473,291	696,649
Commission expenses	(103,838)	(156,237)
Employee benefit expenses	(150,214)	(193,907)
Other expenses, net	(97,342)	(122,164)
Profit before tax	101,494	202,685
Profit for the year	93,927	184,313

Source: 2015 Annual Report

The Group's revenue for the year ended 31 December 2015 represented an increase of approximately 47.2% from the previous year, primarily due to the strong performance of the brokerage business and the corporate finance business, which recorded revenue increases of approximately 48.3% and 92.7% respectively. The Group's brokerage business was boosted by the heightened average daily turnover on the Hong Kong stock market from approximately HK\$69.5

LETTER FROM ALTUS CAPITAL LIMITED

billion in 2014 to HK\$105.6 billion in 2015, whilst the corporate finance business benefitted from the three IPO projects for which the Group acted as sponsor/lead placing agent and 14 underwriting/placement projects for which the Group acted as underwriter/placement agents.

In line with the increase in revenue, the commission expenses incurred by the Group during the year ended 31 December 2015 amounted to approximately HK\$156.2 million, representing an approximately 50.5% increase as compared to the approximately HK\$103.8 million incurred during the year ended 31 December 2014. Employee benefit expenses and other expenses, which predominantly consisted of salary and staff-related cost, also increased during the year ended 31 December 2015, but to a lesser extent than the Group's revenue growth.

As a result of the above, the Group recorded an increase in profit for the year ended 31 December 2015 of approximately 96.2% as compared to the previous year.

Outlook

We noted in the 2015 Annual Report that the Directors foresee certain hurdles for the Group in the coming year. The global economy is still undergoing a period of uncertainty and this may particularly impact the performance of the economic zones in global emerging markets. In the PRC, economic growth is slowing and debt levels are rising, and this coupled with the accumulating danger of financial risk and a number of other factors, may impact the stock market in the PRC.

However, at the same time, there are opportunities presenting themselves to the Group during this period. In the PRC, the "One Belt, One Road" policy (一帶一路) is expected to lead to significant expenditure and infrastructure projects domestically in the PRC and overseas, which will require the provision of financial services. According to the Group's business development plan going forward as stated in the 2015 Annual Report, "the Group will keep a close eye on the opportunities brought by Renminbi exchange rate marketization, accelerate the establishment of cross-border business platform, carry out the overseas network layout steadily step by step and implement the regional strategies that are relevant to the development of overseas market and products, thereby building a good foundation for achieving the internationalization strategy of the Group".

2. Background information of SWHYSC and SWS Research

SWHYSC is principally engaged in securities trading, securities broking and dealing, and provision of investment banking and financial advisory services in the PRC.

SWS Research is principally engaged in securities research business covering the PRC and Hong Kong markets.

LETTER FROM ALTUS CAPITAL LIMITED

3. Background to the Continuing Connected Transactions contemplated under the 2016 SWHYSC MOU and 2016 SWS Research MOU

For many years, there had been transactions similar to the Continuing Connected Transactions, including provision of various services to each other such as brokerage, market support, corporate finance and research services and provision of supporting services relating to research as well as in connection with corporate finance business to the Group.

On 28 March 2013, the Company entered into (i) the 2013 SWHYG MOU with SWHYG; and (ii) the 2013 SWS Research MOU with SWS Research (the “Previous MOUs”), setting out the terms and conditions for the transactions relating to the provision of the above services among them. We have reviewed agreements entered into between the Group and the connected parties, pricing calculation formulae and transaction summaries relating to transactions carried out under the 2013 SWHYG MOU and the 2013 SWS Research MOU, as provided by the Group, and we have noted that procedures which were designed to ensure that transactions were carried out on normal commercial terms were put in place and followed. Following our review of the previous transactions carried out under the Previous MOUs, we are of the view that the transactions were carried out according to the Group’s internal control policy.

Since the existing annual caps under the Previous MOUs for the Continuing Connected Transactions will expire on 31 May 2016, the 2016 SWHYSC MOU and 2016 SWS Research MOU had been entered into on 1 April 2016 with a view to carrying out the Continuing Connected Transactions from 1 June 2016 to 31 May 2019.

Both the 2016 SWHYSC MOU and the 2016 SWS Research MOU are framework agreements which provide the principles, mechanism and terms and conditions for the transactions which they govern.

The 2016 SWHYSC MOU governs the following transactions:

- (a) the provision of brokerage services relating to the PRC capital markets by the SWHYSC Group to the Group;
- (b) the provision of supporting services for the PRC market by the SWHYSC Group to the Group;
- (c) the provision of brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYSC Group;
- (d) the provision of supporting services relating to Hong Kong and overseas markets by the Group to the SWHYSC Group;
- (e) the provision of supporting services in connection with the corporate finance business by the Group to SWHYSC Group; and
- (f) the provision of supporting services in connection with the corporate finance business by the SWHYSC Group to the Group.

LETTER FROM ALTUS CAPITAL LIMITED

The 2016 SWS Research MOU governs the following transactions:

- (a) the provision of supporting services relating to research by SWS Research to the Group's (except for the Group's corporate finance business); and
- (b) the provision of supporting services in connection with corporate finance business by SWS Research to the Group.

We noted that the scope of the above transactions are within the principal businesses of the Group and are conducted in its ordinary and usual course of business. Further details of these services, including the pricing terms under the 2016 SWHYSC MOU and the 2016 SWS MOU, can be found in the section below headed "4. Services and terms of the Continuing Connected Transactions" of this Letter.

4. Services and terms of the Continuing Connected Transactions

The below sets out details of the nature and pricing of the different types of transactions which may be entered into between the Group and connected parties pursuant to the 2016 SWHYSC MOU and the 2016 SWS Research MOU.

4.1 The provision of brokerage services relating to the PRC capital markets by the SWHYSC Group to the Group

4.1.1 Nature of the service

SWHYSC Group provides brokerage services in the PRC capital markets to the Group, including B-share trading services, and potential securities trading services upon the anticipated introduction of the Offshore Investors Scheme.

4.1.2 Pricing of the transactions

SWHYSC Group charges its brokerage fees based on a certain percentage of the transaction amount. According to the terms of the 2016 SWHYSC MOU, the brokerage fees charged by the SWHYSC Group will be determined using normal commercial principles including individual negotiation. Fees 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 SWHYSC Group to its existing clients. Having considered this 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, as laid out below.

According to the Group's internal policy, on an annual basis or more regularly as necessary, the Group will procure at least two other quotations for similar transaction values from independent brokers for comparisons of the brokerage rates.

LETTER FROM ALTUS CAPITAL LIMITED

Given the general and transparent nature of market brokerage rates, we are of the view that the internal policy above, including the frequency of comparisons, is practicable and fair and reasonable.

4.2 *The provision of supporting services for the PRC market by the SWHYSC Group to the Group*

4.2.1 Nature of the service

Supporting services provided by the SWHYSC Group to the Group for developing the PRC market mainly includes client referrals, business and market consultation services and personnel training services in support of the Group's development and operations including but not limited to the launch and the anticipated launch of the Offshore Investors Schemes, such as the QFII Scheme, QFII2 Scheme, RQFII Scheme, RQFII2 Scheme, Mutual Recognition of Hong Kong and China Fund Programs and overseas commodity futures, etc.

4.2.2 Pricing of the transactions

The rate charged by SWHYSC Group is determined on a time-cost rate based on the estimated amount of hours needed for the work and with reference to employees' salary.

According to the terms of the 2016 SWHYSC MOU, the fees charged by the SWHYSC Group to the Group relating to the supporting services for developing the PRC market will be determined based on actual time cost spent on this service charged by the SWHYSC Group to the Group. The actual time cost will be calculated based on an average hourly payroll of manpower multiplied by the actual number of hours spent on this service. The average hourly payroll will be a fixed monetary amount calculated by SWHYSC Group with reference to the actual monthly payroll of relevant staff in this service divided by the number of working hours in a month. Having considered this 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, as laid out below.

According to the Group's internal policy, the reasonableness of the estimated man-days/man-hours will be verified by 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 SWHYSC Group against the Group's own time-cost rates to ascertain their reasonableness.

Given that wide scope and bespoke nature of the supporting services, we concur with the Management that it will not be practicable to obtain quotations from independent parties for comparison. We are of the view that the cross-check mechanism as described above is a reasonable approach to ensure fairness of pricing.

LETTER FROM ALTUS CAPITAL LIMITED

4.3 *The provision of brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYSC Group*

4.3.1 *Nature of the service*

These services refer to brokerage services in Hong Kong and overseas capital markets provided by the Group to the SWHYSC Group, which consist of securities trading services in relation to the launch and the anticipated launch (subject to relevant authorities' approvals) of the Onshore Investors Schemes which include, but are not limited to, the QDII Scheme and QDII2 Scheme.

4.3.2 *Pricing of the transactions*

The Group charges its brokerage service clients, and if such transactions arise will charge the SWHYSC Group, a certain percentage of the total transaction amount. According to the terms of the 2016 SWHYSC MOU, the fees charged by the Group to the SWHYSC Group relating to the brokerage services for Hong Kong and overseas capital markets will be determined using normal commercial principles including individual negotiation. Fees shall be based on a fixed percentage (0.1%-0.2%) of the gross consideration of clients' trade turnover with reference to market levels and actual circumstances, and the prevailing market rates charged by the Group to its existing clients. Having considered this 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, as laid out below.

According to the Group's internal policy, on an annual basis or more regularly as necessary, 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.

Given the general and transparent nature of market brokerage rates, we are of the view that the internal policy above, including the frequency of comparisons, is practicable and fair and reasonable.

4.4 *The provision of support services relating to Hong Kong and overseas markets by the Group to the SWHYSC Group*

4.4.1 *Nature of the service*

Hong Kong and overseas market supporting services provided by the Group to the SWHYSC Group mainly include client referrals, business and market consultation services and personnel training services in support of the development and operation of the SWHYSC Group. Services coverage include, but are not limited to, the launch and the anticipated launch of the Onshore Investors Schemes such as the QDII Scheme, QDII2 Scheme, Mutual

LETTER FROM ALTUS CAPITAL LIMITED

Recognition of Hong Kong and China Fund Programs and overseas commodity futures etc, as well as the launch and the anticipated launch of the Offshore Investors Schemes such as the QFII Scheme, QFII2 Scheme etc.

4.4.2 Pricing of the transactions

The Group charges fees for these supporting services provided to SWHYSC Group on cost recovery principles.

According to the terms of the 2016 SWHYSC MOU, the fees charged by the Group to the SWHYSC Group relating to the supporting services for developing Hong Kong and overseas markets will be determined using normal commercial principles (including individual negotiation with reference to market levels and actual circumstances). Fees shall be based on a fixed percentage of the after-tax actual relevant commission earned by the SWHYSC Group. Having considered this 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, as laid out below.

According to the Group's internal policy, the reasonableness of the fee charged for provision of such supporting services to SWHYSC Group will be verified by the Group by reference to the Group's relevant department's judgement of time required for work of similar nature. The Group will also cross check the time-cost rates against the Group's relevant staff's salary rates to ascertain their reasonableness.

Given that wide scope and bespoke nature of the supporting services, and the fact that the Group does not at the moment provide similar services to independent third parties, no comparison can be made. We are of the view that the cross-check mechanism as described above is a reasonable approach to ensure fairness of pricing.

4.5 The provision of supporting services in connection with the corporate finance business by the Group to SWHYSC Group

4.5.1 Nature of the service

Supporting services provided by the Group to the SWHYSC Group include, but are not limited to, information services and client referrals in connection with corporate finance business, the scope of which includes, but is not limited to, corporate finance projects, merger and acquisition projects and financial advisory projects.

4.5.2 Pricing of the transactions

According to the terms of the 2016 SWHYSC MOU, the fees charged by the Group to the SWHYSC Group relating to the corporate finance business will be determined based on normal commercial principles (including with reference to market conventions and actual circumstances). The pricing will be based on a fixed percentage of the revenue from third party customers for each project. Such fixed percentage will vary from one project to another

LETTER FROM ALTUS CAPITAL LIMITED

depending on the amount of work performed by the Group and will be agreed in writing. Having considered this 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, as laid out below.

According to the Group's internal policy, where practicable, the fees charged or rates will be compared against fees charged to independent third party customers taking into account of similarity of scope of services.

Given the bespoke nature of the supporting services, and the fact that the Group does not at the moment provide similar services to independent third parties, no comparison can be made. We are of the view that the cross-check mechanism, where practicable, as described above is a reasonable approach to ensure fairness of pricing.

4.6 *The provision of supporting services in connection with the corporate finance business by the SWHYSC Group to the Group*

4.6.1 Nature of the service

Supporting services provided by the SWHYSC Group to the Group include, but are not limited to, information services and client referrals in connection with corporate finance business, the scope of which includes, but is not limited to, corporate finance projects, merger and acquisition projects and financial advisory projects.

4.6.2 Pricing of the transactions

According to the terms of the 2016 SWHYSC MOU, the fees charged by the SWHYSC Group to the Group relating to the corporate finance business will be determined based on normal commercial principles (including with reference to market conventions and actual circumstances). The pricing policy will be based on a fixed percentage (8%-40%) of the revenue from third party customers for each project. Such fixed percentage will vary from one project to another depending on the amount of work performed by the SWHYSC Group and will be agreed in writing. Having considered this 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, as laid out below.

According to the Group's internal policy, 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.

Given the bespoke nature of the supporting services, we concur with the Management that it will not be practicable to obtain quotations from independent parties for comparison. We are of the view that the review mechanism as described above is a reasonable approach to ensure fairness of pricing.

LETTER FROM ALTUS CAPITAL LIMITED

4.7 The provision of supporting services relating to research by SWS Research to the Group (except for the Group's corporate finance business)

4.7.1 Nature of the services

The provision of various research materials to the Group by SWS Research includes, but is not limited to, Hong Kong and PRC listed company research reports, industry sector reports, fixed income product research reports, derivative product research reports, investment strategy reports and economic analysis reports, as well as supporting services from SWS Research for investor meetings organised by the Group. According to the Management, these services will mainly be for our institutional sales department and will normally be on a continuous basis.

4.7.2 Pricing of the transactions

According to the terms of the 2016 SWS Research MOU, the fees charged by SWS Research to the Group for the research materials and supporting services relating to research will be determined based on normal commercial principles (including market conventions and actual circumstances). The pricing will be based on a fixed monetary consideration for a six-month period which will be agreed in writing. Having considered this 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, as laid out below.

According to the Group's internal policy, the Group will conduct review on an annual basis or more regularly if required to compare the fee charged with reference to the scope of work performed.

Given the bespoke nature of the supporting services on research, we concur with the Management that it will not be practicable to obtain quotations from independent parties for comparison. We are of the view that the review mechanism as described above is a reasonable approach to ensure fairness of pricing.

4.8 Supporting services in connection with corporate finance business provided by SWS Research to the Group

4.8.1 Nature of the services

Supporting services provided by SWS Research to the Group include, but are not limited to, information services and client referrals in connection with corporate finance business, the scope of which includes, but is not limited to, corporate finance projects, merger and acquisition projects and financial advisory projects. According to the Management, these services for corporate finance business will normally be on a project-by-project basis.

LETTER FROM ALTUS CAPITAL LIMITED

4.8.2 Pricing of the transactions

According to the terms of the 2016 SWS Research MOU, the fees charged by SWS Research to the Group for the supporting services relating to corporate finance will be determined based on normal commercial principles (including market conventions and actual circumstances). The pricing policy will be based on a fixed monetary consideration per project which will be agreed in writing. Having considered this 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, as laid out below.

According to the Group's internal policy, the Group will conduct review on an annual basis or more regularly if required to compare the fee charged with reference to the scope of work performed.

Given the bespoke nature of the supporting services on research, we concur with the Management that it will not be practicable to obtain quotations from independent parties for comparison. We are of the view that the review mechanism as described above is a reasonable approach to ensure fairness of pricing.

4.9 Monitoring and review of the Continuing Connected Transactions

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 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 accordance with the relevant agreement governing the transaction; 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 Company throughout the preceding financial year and confirm on the transactional amounts and terms of the transactions in the annual report of the Company.

By implementing the above procedures, the Directors consider, and we concur, that the Company 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 Company and the Shareholders as a whole.

LETTER FROM ALTUS CAPITAL LIMITED

4.10 Reasons for carrying out the Continuing Connected Transactions

The Group has been entering into the above transactions with connected parties for many years. Over such period, the Management are of the view that the two parties have established a strong and stable relationship which enhances the efficiency in both cost and time of their operations. The Management is of the view that with the increasing levels of cross-border financial interaction, the ability to quickly and reliably transact with a PRC-based counter-party is integral. With this in mind, the Management believes that it is in the interests of the Shareholders and the Company as a whole to continue to have the opportunity to enter into the transactions with their parent company.

Services provided by the SWHYSC Group and SWS Research can enable the Group to provide a more comprehensive range of services to its customers, and the Group can use this expanded range of services to attract and retain customers. Furthermore, the reciprocal nature of services such as the supporting services in relation to capital markets and the corporate finance business means that the Group can benefit both from the fees charged to the connected parties as well as the increased business opportunities provided by the connected parties. As a result of the above, the Group, the SWHYSC Group and SWS Research may 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 whilst the Management also believes that the Group's service quality will be enhanced through the provision of cross-border financial intermediary services.

Having reviewed the stipulations of the 2016 SWHYSC MOU and the 2016 SWS Research MOU, the Company's internal policies governing transactions entered into between the Group and the SWSC Group, and considering the reasons for entering into the transactions, we are of the view that these transactions as contemplated under the 2016 SWHYSC MOU and the 2016 SWS Research MOU are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the usual and ordinary course of business of the Group.

5. Annual Caps

5.1 The Previous Annual Caps and the historical transaction amounts under the Previous MOUs

Set out in the table on page 37 are the Previous Annual Caps and the historical transaction amount of the transactions carried out under the Previous MOUs during the seven months ended 31 December 2013 and the two years ended 31 December 2015 ("Review Period"). According to the Management, figures for the period from 1 January 2016 up to the date hereof are not yet available for comparison.

As seen in the aforesaid tables, the historical utilisation of the Previous Annual Caps during the Review Period was generally low. In particular during the Review Period, the Group had not provided any brokerage services relating to the Hong Kong and overseas capital markets to the SWHYG Group. There were also only nominal transactions between the Group and SWHYG Group in respect of supporting services for corporate finance business which mainly covered the aspect of business referrals.

LETTER FROM ALTUS CAPITAL LIMITED

Brokerage services relating to PRC capital markets by the SWHYG Group to the Group

Based on our discussion with the Management, we noted that in general the frequency and magnitude of transactions relating to brokerage services and supporting services in capital markets depends to a large extent on market sentiments as well as government policies and initiatives. In respect of brokerage services and supporting services for the PRC capital markets, it can be observed from the tables that utilisation rates had been higher during 2015, which coincided with increased activities of the PRC market.

Supporting services relating to PRC capital markets by the SWHYG Group to the Group

In line with the buoyant PRC market during a period of time during 2015, the demand from the Group for SWHYG Group's supporting services for this market increased.

Brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYG Group

Meanwhile, the Management explained that based on their discussion with SWHYG Group, there was minimal demand from SWHYG Group's PRC-based investors for shares and products of Hong Kong and overseas capital markets during the Review Period as there were still many restrictions being imposed and the pace of relaxation of QDII quotas were slower than anticipated. The implementation of the Shanghai-Hong Kong Stock Connect in November 2014 which provided convenience to PRC-based investors to invest in Hong Kong stocks had also reduced SWHYG Group's need of the Group's brokerage services.

Supporting services relating to Hong Kong and overseas capital markets by the Group to the SWHYG Group

It was at the same time observed that while utilisation rate remained low, the amount of supporting services rendered by the Group to SWHYG Group relating to Hong Kong and overseas capital markets had increased in 2015 underpinned by increasing interests of investors' interests in these markets and consequently, demands for relevant information and services from the Group.

Supporting services in connection with corporate finance business rendered to and received from SWHYG Group

There were only nominal transactions between the Group and SWHYG Group in respect of supporting services for corporate finance business which mainly covered the aspect of business referrals. Based on our discussion with the Management, the business referrals for corporate finance businesses were meant to cover initial public offerings, mergers and acquisition transactions as well as fund raising projects. During the Review Period, there had not been many successful referrals due to specific reasons of the transactions involved not being completed. At the same time, the SWHYG Group and the Group are still progressively developing the cross referral arrangements after the merger of the businesses of Shenyin Wanguo Securities Co. Ltd and Hong Yuan Securities Co. Ltd in early 2015.

LETTER FROM ALTUS CAPITAL LIMITED

Supporting services relating to research by SWS Research to the Group (except for the Group's corporate finance business)

The level of supporting services relating to research provided by SWS Research bore correlation to the level of interests of the Group's clients in investing in the PRC related markets. As set out below, the amount of supporting services relating to research rendered by SWS Research to the Group had increased to approximately HK\$11.5 million in 2015 from approximately HK\$5.0 million in 2014 in line with the increased activities of the PRC and Hong Kong markets during the year. The Management explained that due to delay in implementation of relevant policies, the level of services required fell short of those anticipated under the Previous Annual Caps.

Supporting services relating to corporate finance business by SWS Research to the Group

The supporting services cover mainly provision of information services to facilitate corporate finance transactions and client referrals. During the Review Period, there had not been many successful referrals due to specific reasons of the transactions involved not being completed.

Having considered the nature of brokerage and its supporting business (including research services), and its close correlation with market activities, we are of the view that the Management's explanations for the relevant low utilisation are reasonable. Having also considered the non-recurring nature of corporate finance business, and the fact that payment and receipt of referral fees to a large extent depended on the successful execution of the corporate finance transactions which in turn are subject to relatively high level of uncertainties, we are of the view that the Management's explanations for the relevant low utilisation are reasonable.

LETTER FROM ALTUS CAPITAL LIMITED

We note that when determining and formulating the Annual Caps, the Management has taken into consideration the comparatively low historical utilisation for certain categories such as brokerage services and has adjusted downwards their Annual Caps compared with the Previous Annual Caps. This is further discussed in the section below headed “5.2 Proposed Annual Caps”.

	For the seven months ended			For the year ended 31 December					
	31 December 2013			2014			2015		
	Previous			Previous			Previous		
	Actual amount HK\$'000 (audited)	Annual Cap HK\$'000	Utilisation rate %	Actual amount HK\$'000 (audited)	Annual Cap HK\$'000	Utilisation rate %	Actual amount HK\$'000 (audited)	Annual Cap HK\$'000	Utilisation rate %
Annual Caps for services relating to the SWHYG Transactions comprising:									
– brokerage services relating to the PRC capital markets by the SWHYG Group to the Group	1,357	23,920	5.7%	2,026	49,200	4.1%	4,669	59,040	7.9%
– supporting services for the PRC market by the SWHYG Group to the Group	–	3,960	–	2,500	8,148	30.7%	5,800	9,778	59.3%
– brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYG Group	–	25,300	–	–	52,400	–	–	63,360	–
– supporting services relating to Hong Kong and overseas capital markets by the Group to the SWHYG Group	–	65,590	–	1,300	134,937	1.0%	12,494	161,944	7.7%
– supporting services in connection with corporate finance business by the Group to SWHYG Group	–	6,789	–	203	13,966	1.5%	–	16,760	–
– supporting services in connection with corporate finance business by the SWHYG Group to the Group	–	4,900	–	–	10,080	–	–	12,096	–
Annual Caps for services relating to the SWS Research Transactions comprising:									
– supporting services relating to research by SWS Research to the Group (except for the Group's corporate finance business)	4,583	17,500	26.2%	5,000	36,000	13.9%	11,500	43,200	26.6%
– supporting services in connection with corporate finance business by SWS Research to the Group	143	2,100	6.8%	–	4,320	–	–	5,184	–

LETTER FROM ALTUS CAPITAL LIMITED

5.2 Proposed Annual Caps

The proposed Annual Caps for the Continuing Connected Transactions pursuant to the 2016 SWHYSC MOU and the 2016 SWS Research MOU are as follows:

	For the seven months ending 31 December 2016 <i>HK\$'000</i>	For the year ending 31 December 2017 <i>HK\$'000</i>	For the year ending 31 December 2018 <i>HK\$'000</i>	For the five months ending 31 May 2019 <i>HK\$'000</i>
Annual Caps for services relating to the SWHYSC Transactions comprising:				
– brokerage services relating to the PRC capital markets by the SWHYSC Group to the Group	8,083	14,826	15,864	7,073
– supporting services for the PRC market by the SWHYSC Group to the Group	8,801	16,143	17,273	7,701
– brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYSC Group	5,280	9,686	10,364	4,620
– supporting services relating to Hong Kong and overseas capital markets by the Group to the SWHYSC Group	24,343	44,651	47,777	21,300
– supporting services in connection with corporate finance business by the Group to SWHYSC Group	9,254	16,975	18,163	8,098
– supporting services in connection with corporate finance business by the SWHSC Group to the Group	7,490	13,739	14,701	6,554
Annual Caps for services relating to the SWS Research Transactions comprising:				
– supporting services relating to research by SWS Research to the Group (except for the Group's corporate finance business)	18,482	33,900	36,274	16,172
– supporting services in connection with corporate finance business by SWS Research to the Group	3,267	6,000	6,400	2,833

LETTER FROM ALTUS CAPITAL LIMITED

5.3 *Basis of the Annual Caps for the Continuing Connected Transactions*

The basis which the Annual Caps have been determined can be found in the Letter from the Board and our views in respect of their basis for each category of services are further discussed below.

General expectation on financial market developments

Overall, we noted that the estimation of Annual Caps to a large extent hinges on the Management's expectation of financial market developments in the coming few years, in particular the expected implementation of various government policies such as the Offshore Investors Schemes (including but not limited to the QFII2 Scheme and RQFII Scheme), the Mutual Recognition of Hong Kong and China Fund Program, development of cross-border special financial services region in Qianhai, Shenzhen and the Onshore Investors Schemes (including but not limited to the QDII Scheme and QDII2 Scheme).

We concur with Management's view that while the timing of government policies implementation is beyond control and as a result there may be minimal or no transactions being conducted pending their implementation; it is important that the Group be prepared to be able to take advantage of opportunities when these policies become effective and fully implemented. We believe in these instances, on the premise that the Group has procedures in place to ensure proper execution of transaction at fair and reasonable terms, any additional Continuing Connected Transaction being conducted will be beneficial to the Group and the Shareholders as a whole.

Business nature of financial service firms

We also recognise the difference in business nature of the Group as a financial service firm where the values of financial transactions are highly scalable albeit volatile. For example, unlike a manufacturing business where the value of goods produced at its production facility is limited by the capacity of its machinery and labour force, a financial service firm has less constraint in generating brokerage income during periods if and when financial markets are active. For example, the value of brokerage transactions that can be handled by a team of institutional sales brokers is dependent more on the financial market conditions rather than the number of deals the team can physically execute. In other words, the value of financial transactions can vary significantly when financial markets fluctuate. As an illustration, this can be evidenced by the substantially higher transaction volume of shares in the Stock Exchange during the second and third quarter of 2015. Consequently, we are of the view that it is reasonable for the Management to put in place higher levels of Annual Caps as buffers despite the fact that historically, the relevant transaction value had been low or there had been no transaction.

LETTER FROM ALTUS CAPITAL LIMITED

Similarly for referral fees for corporate finance business, the outcome may be binary in nature where if the transaction is successful, fee will be payable while there will be no fee if the transaction falls through. The amount of referral fees may also vary substantially as they typically is charged as a percentage of transaction value which can vary depending on the nature of the corporate finance transaction.

Overall expansion of PRC and Hong Kong financial markets

When determining the Annual Caps, the Management has applied an annual growth rate of 7% after making reference to potential growth of the PRC and Hong Kong financial markets brought about by the launches of the aforesaid governmental reforms or programs.

Basis of determining each category of Annual Cap

5.3.1 Brokerage services relating to PRC capital markets from the SWHYSC Group to the Group

The brokerage services relating to the PRC capital markets mainly represent brokerage services related to the B-share market, which demand is underpinned by the anticipated introduction of the Offshore Investors Schemes. We note that there has been market expectation on B-to-H Share Conversion.

Based on our review of various publications by relevant government agencies, we have noted general progress in implementation of Offshore Investors Schemes. Our market research also noted increasing activities of B-to-H Share Conversion. These findings support the Management's expectation of potentially higher brokerage activities relating to PRC markets which the Group will require from SWHYSC Group.

We noted that the Management has adjusted downwards the Annual Cap for this category of transaction in view of the low utilisation during the Review Period.

5.3.2 Supporting services for PRC market from the SWHYSC Group to the Group

As it is expected that there will be more opportunities allowing investors in the PRC and Hong Kong to invest directly in their respective markets, demand for supporting services for the PRC market is expected to also increase. We noted that the historical amount of this category of transaction had been on an increasing trend during the Review Period. After applying the annual growth rate, a higher Annual Cap has been proposed.

5.3.3 Brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYSC Group

The brokerage services relating to Hong Kong and overseas markets mainly represent brokerage services which demand is underpinned by the launch and anticipated launch of the Onshore Investors Schemes.

LETTER FROM ALTUS CAPITAL LIMITED

Based on our review of various publications by relevant government agencies, we have noted general progress in implementation of Onshore Investors Schemes.

We noted that the Management has adjusted downwards the Annual Cap for this category of transaction in view of the fact that no transaction was conducted during the Review Period.

5.3.4 Supporting services relating to Hong Kong and overseas capital markets by the Group to the SWHYSC Group

Fees for supporting services relating to Hong Kong and overseas capital markets are expected to increase in line with the planning and implementation of Onshore Investors Schemes. The costs relating to the provision of such services, especially personnel costs, are expected to increase given the buoyant market for financial services personnel.

During the Review Period, the historical amount of this category of transaction had been on an increasing trend. Notwithstanding, as the utilisation level had remained low, the Management has adjusted downwards the Annual Cap for this category of transaction.

5.3.5 Supporting services in connection with corporate finance business by the Group to SWHYSC Group

The demand for supporting services which relate to provision of information services and client referrals for corporate finance business is expected to be underpinned by increase in cross-border business in relation to securities listings in Hong Kong and PRC. We note that this is in line with the fact that markets for initial public offering and corporate finance transactions have been buoyant in the recent few years. Consequently, despite there being only nominal such transaction during the Review Period, the Management has proposed a similar level of Annual Cap as those under the Previous MOUs.

5.3.6 Supporting services in connection with corporate finance business by the SWHYSC Group to the Group

For the same reason as the provision of supporting services in connection with corporate finance business by the Group to SWHYSC Group, despite there being no such transaction during the Review Period, the Management has proposed a similar level of Annual Cap as those under the Previous MOUs.

5.3.7 Supporting services relating to research by SWS Research to the Group (except for the Group's corporate finance business)

In view of the increasing number of PRC companies with dual-listings in both Hong Kong and the PRC markets, and increasing foreign interests in PRC related securities, we concur with the Management that demand for supporting services relating to research materials covering Hong Kong and PRC markets will grow.

LETTER FROM ALTUS CAPITAL LIMITED

Given that SWS Research is one of the leading research houses covering the PRC financial markets and considering the increasing trend of demand for these services during the Review Period, we concur with the Management's approach that a similar level of Annual Cap be put in place for these supporting services.

5.3.8 Supporting services in connection with corporate finance business from SWS Research to the Group

The demand for these supporting services which relate to provision of information services and client referrals for corporate finance business is expected to be underpinned by increase in cross-border business in relation to securities listings in Hong Kong and PRC. While only nominal amount of such transactions occurred during the Review Period, due to the binary nature of corporate finance transactions, the Management has proposed a similar level of Annual Cap as those under the Previous MOUs.

Having considered the methodology employed by the Management in determining the Annual Caps, including the reasonableness of the bases and assumptions, we are of the view that they are fair and reasonable and in the interests of the Company and Shareholders as a whole. In particular, we have also considered the development and progress of liberalisation of the PRC financial markets as well as the comparative volatile nature of financial market transactions and consequently, the need of maintaining certain level of buffers for the Annual Caps.

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the terms of the Continuing Connected Transactions contemplated under the 2016 SWHYSC MOU and the 2016 SWS Research MOU fall in the ordinary and usual course of business of the Group; (ii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; (iii) the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; (iv) the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution approving the Continuing Connected Transactions contemplated under the 2016 SWHYSC MOU and the 2016 SWS Research MOU and the proposed Annual Caps related thereto at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Chang Sean Pey
Executive Director

Mr. Chang Sean Pey ("Mr. Chang") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a

LETTER FROM ALTUS CAPITAL LIMITED

Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 15 years of experience in banking, corporate finance and advisory, and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.

Altus Capital Limited has not acted as an independent financial adviser of the Company's other transactions in the last two years from the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on this is at a market level and is not conditional upon successful passing of the resolution and that our engagement is on normal commercial terms, Altus Capital Limited is independent of the Company.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register required to be kept by the Company pursuant to Section 336 of the SFO and so far as is known to the Directors and chief executive of the Company, the following persons or corporations had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who/which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in Shares

Name	Capacity and nature of interests	Number of Shares held	Approximate percentage of the Shares in issue
Shenwan Hongyuan Holdings (B.V.I.) Limited (“SWHYHBVI”)	Directly beneficially owned	402,502,312 ⁽¹⁾	50.56
Venture-Some Investments Limited (“VSI”)	Through controlled corporation	402,502,312 ⁽¹⁾	50.56
Shenwan Hongyuan (International) Holdings Limited	Through controlled corporation Directly beneficially owned	402,502,312 ⁽¹⁾ 3,306,257 ⁽²⁾	50.56 0.42
SWHYG	Through controlled corporation	405,808,569 ⁽¹⁾⁽²⁾	50.98

(1) SWHYHBVI is held directly as to 60.82% by VSI. VSI is wholly-owned by Shenwan Hongyuan (International) Holdings Limited. Shenwan Hongyuan (International) Holdings Limited is wholly-owned by SWHYG. Hence, VSI, Shenwan Hongyuan (International) Holdings Limited and SWHYG are deemed to be interested in the same parcel of 402,502,312 Shares held by SWHYHBVI under the SFO.

(2) Shenwan Hongyuan (International) Holdings Limited also held directly 3,306,257 Shares. Hence, SWHYG is also deemed to be interested in the same parcel of 3,306,257 Shares held by Shenwan Hongyuan (International) Holdings Limited under SFO.

According to the register required to be kept by the Company pursuant to Section 336 of the SFO and so far as is known to the Directors and chief executive of the Company, save as disclosed above, there were no other persons or corporations who/which, as at the Latest Practicable Date, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who/which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any options in respect of such capital.

As at the Latest Practicable Date, Messrs. Zhu Minjie, Chen Xiaosheng, Guo Chun and Zhang Lei, being Directors, were also directors or employees of SWHYG or its subsidiaries.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Name of Director	Name of entity	Nature of interest of the Director in the entity	Description of business of the entity
Zhu Minjie	SWHYSC	Deputy General Manager	Securities business
Chen Xiaosheng	SWHYSC	Assistant to General Manager and General Manager of Institutional Business	Securities business
	SWS Research	General Manager	Securities research and consulting business
Guo Chun	SWHYSC	Managing Director of International Business Division	Securities business
Zhang Lei	SIIC Asset Management Company Limited	Director and Responsible Officer	Provision of asset management services

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. DIRECTORS' INTERESTS IN CONTRACTS OF THE GROUP

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the date hereof which was significant in relation to the business of the Group.

7. SERVICE CONTRACTS

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

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up.

9. EXPERT AND CONSENT

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

Name	Qualification
Altus Capital Limited	a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Altus Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they appear.

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

As at the Latest Practicable Date, Altus Capital Limited did not have any interest, direct or indirect, in any assets which had been since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

10. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Wong Che Keung Leslie, who is a Fellow of the Hong Kong Institute of Certified Public Accountants.
- (b) The share registrar of the Company is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of following documents will be available for inspection at Level 19, 28 Hennessy Road, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

- (a) the 2016 SWHYSC MOU;
- (b) the 2016 SWS Research MOU;
- (c) the memorandum and articles of association of the Company;
- (d) the written consent of Altus Capital Limited;
- (e) 2014 and 2015 annual reports of the Company;
- (f) 2014 and 2015 interim reports of the Company; and
- (g) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.



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

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Shenwan Hongyuan (H.K.) Limited (the “Company”) will be held at the TALK Meeting Room at 2nd Floor, OZO Wesley Hong Kong at 22 Hennessy Road, Wanchai, Hong Kong, on Friday, 13 May 2016 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions of the Company. Unless otherwise indicated, capitalised terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 25 April 2016 (the “Circular”):

ORDINARY RESOLUTIONS

1. **“THAT**

- (a) the 2016 SWHYSC MOU entered into between SWHYSC and the Company (a copy of which has been produced to the meeting marked “A” and signed by the Chairman of the meeting for identification purpose) in relation to the SWHYSC Transactions as more particularly set out in the Circular and all the transactions contemplated thereunder as well as the Annual Caps for the transactions contemplated under the 2016 SWHYSC MOU for the seven months ending 31 December 2016, each of the two years ending 31 December 2018, and the five months ending 31 May 2019 as shown in the Circular be and are hereby approved; and
- (b) the Directors be and are hereby authorised to do all acts and execute all documents they consider necessary or expedient in connection with the 2016 SWHYSC MOU and the transactions contemplated thereunder.”

2. **“THAT**

- (a) the 2016 SWS Research MOU entered into between SWS Research and the Company (a copy of which has been produced to the meeting marked “B” and signed by the Chairman of the meeting for identification purpose) in relation to the SWS Research

NOTICE OF EXTRAORDINARY GENERAL MEETING

Transactions as more particularly set out in the Circular and all the transactions contemplated thereunder as well as the Annual Caps for the transactions contemplated under the 2016 SWS Research MOU for the seven months ending 31 December 2016, each of the two years ending 31 December 2018, and the five months ending 31 May 2019 as shown in the Circular be and are hereby approved; and

- (b) the Directors be and are hereby authorised to do all acts and execute all documents they consider necessary or expedient in connection with the 2016 SWS Research MOU and the transactions contemplated thereunder.”

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

Hong Kong, 25 April 2016

As at the date of this notice, the Board comprises 9 Directors, of which Mr. Zhu Minjie, Mr. Lu Wenqing, Mr. Chen Xiaosheng, Mr. Guo Chun and Mr. Lee Man Chun Tony are the executive Directors, Mr. Zhang Lei is the non-executive Director, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin are the independent non-executive Directors.

Notes:

1. The register of members of the Company will be closed from Monday, 9 May 2016 to Friday, 13 May 2016, both days inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 6 May 2016.
2. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf and such proxy need not be a member of the Company.
3. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney or authority, must be deposited at the registered office of the Company at Level 19, 28 Hennessy Road, Hong Kong not later than 48 hours before the time appointed for the holding of the EGM (or the adjourned meeting as the case may be).
4. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In the case of joint holders of a share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto; and if more than one of such joint holders are present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. The ordinary resolutions to be considered at the EGM will be decided by poll.