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

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

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

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

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

**(1) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSON
UNDER SPECIFIC MANDATE**
**(2) PROPOSAL FOR RE-ELECTION OF DIRECTORS
AND**
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A notice of extraordinary general meeting (the “EGM”) of the Company to be held at the TALK Meeting Room on 2nd Floor, OZO Wesley Hong Kong, 22 Hennessy Road, Wanchai, Hong Kong on Thursday, 31 January 2019 at 10:00 a.m. is set out on pages 50 to 51 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited.

Whether or not you are able to attend the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company’s share registrar, Tricor Tengis Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

16 January 2019



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DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Announcement”	the Company’s announcement dated 14 December 2018 in relation to the Subscription
“associate(s)”	having the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day (other than a Saturday, Sunday or a public holiday) on which licensed banks in Hong Kong are open for business throughout their normal business hours
“Company”	Shenwan Hongyuan (H.K.) Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 218)
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“connected person(s)”	having the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at the TALK Meeting Room on 2nd Floor, OZO Wesley Hong Kong, 22 Hennessy Road, Wanchai, Hong Kong on Thursday, 31 January 2019 at 10:00 a.m. for the purpose of approving, amongst other things, the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Subscription Shares under the Specific Mandate

DEFINITIONS

“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“First Shanghai”	First Shanghai Investments Limited, a Hong Kong-based investment holding company principally engaged in financial investment, property investment and hotel investment, and the equities of which are listed on the Stock Exchange (Stock Code: 227)
“Group”	collectively, the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, namely, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang, which was established to advise the Independent Shareholders on the Subscription Agreement
“Independent Financial Adviser” or “Somerley Capital”	Somerley Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Subscription Agreement
“Independent Shareholders”	Shareholders other than (1) SWHY International, SWHY BVI and their respective associates; and (2) those who are involved in, or interested in, the Subscription Agreement and the transactions contemplated thereunder
“Last Trading Day”	13 December 2018, being the last full trading day in the Shares before the date of the Subscription Agreement
“Latest Practicable Date”	11 January 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Committee”	the Listing Committee of the Stock Exchange

DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Distribution”	a proposed distribution by SWHY BVI of its entire shareholding in the Company by way of distribution in specie or share transfer to its current shareholders, namely Venture-Some, Shanghai Industrial and First Shanghai, which are expected to hold directly, after the proposed distribution in specie or share transfer, 244,825,535 Shares, 80,280,188 Shares and 77,396,589 Shares, representing approximately 15.68%, 5.14% and 4.96% of the enlarged issued Shares, respectively
“SFC”	Securities and Futures Commission of Hong Kong
“SFC Waiver”	the waiver given by the Executive from strict compliance by the Subscriber and any person acting in concert with it to make a general offer for the issued securities of the Company not already owned or agreed to be acquired by the Subscriber and persons acting in concert with it as a result of the allotment and issue of the Subscription Shares to the Subscriber pursuant to the Subscription Agreement
“Shanghai Industrial”	Shanghai Industrial Investment (Holdings) Company Limited, a comprehensive conglomerate in Shanghai and a parent company of Shanghai Industrial Holdings Limited (the equities of which are listed on the Stock Exchange (Stock Code: 363))
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the special mandate to be granted by the Independent Shareholders to the Board at the EGM for the subscription of the Subscription Shares by the Subscriber
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber” or “SWHY International”	Shenwan Hongyuan (International) Holdings Limited, a wholly-owned subsidiary of Shenwan Hongyuan Securities Co., Ltd. and a connected person of the Company
“Subscription”	the subscription of the Subscription Shares by the Subscriber at the Subscription Price pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 14 December 2018 entered into by the Company and the Subscriber
“Subscription Price”	the subscription price of HK\$2.068 per Subscription Share
“Subscription Shares”	765,000,000 new Shares to be subscribed by the Subscriber pursuant to the Subscription Agreement
“Substantial Shareholder(s)”	having the meaning ascribed thereto under the Listing Rules
“SWHY BVI”	Shenwan Hongyuan Holdings (B.V.I.) Limited, approximately 60.82% of the issued Shares of which are directly held by Venture-Some, a Substantial Shareholder holding approximately 50.56% of the issued Shares as at the Latest Practicable Date
“Takeovers Code”	the Code on Takeovers and Mergers
“Venture-Some”	Venture-Some Investments Limited, a wholly-owned subsidiary of SWHY International
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	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

Zhu Minjie (*Chairman*)
Chen Xiaosheng
Zhang Jian
Guo Chun (*Deputy Chairman*)
Qiu Yizhou (*Chief Executive Officer*)

Registered Office

Level 19
28 Hennessy Road
Hong Kong

Non-executive Director

Zhang Lei

Independent non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Chen Liqiang

16 January 2019

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSON
UNDER SPECIFIC MANDATE
(2) PROPOSAL FOR RE-ELECTION OF DIRECTORS
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to provide you with (i) further information on the Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Subscription Shares under the Specific Mandate; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the terms of the Subscription Agreement and the Specific Mandate; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription Agreement and the Specific Mandate; (iv) other information prescribed by the Listing Rules; (v) information relating to the proposal for re-election of Directors; and (vi) the notice of the EGM.

LETTER FROM THE BOARD

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSON UNDER SPECIFIC MANDATE

Reference is made to the Announcement dated 14 December 2018 in relation to the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and SWHY International has conditionally agreed to subscribe for, 765,000,000 Subscription Shares at the Subscription Price of HK\$2.068 per Subscription Share.

The principal terms of the Subscription Agreement are set out below:

The Subscription Agreement

Date

14 December 2018 (after trading hours)

Parties

1. The Company (as the issuer)
2. SWHY International (as the subscriber)

Number of Subscription Shares

The Subscription Shares represent (i) approximately 96.09% of the existing issued Shares as at the date of the Announcement; and (ii) approximately 49.00% of the issued Shares as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no other change in the number of issued Shares after the date of the Announcement and before Completion).

Subscription Price

The Subscription Price is HK\$2.068 per Subscription Share. The Subscription Price represents:

- (a) a premium of approximately 30.9% to the closing price of HK\$1.58 on 14 December 2018 (being the date on which the terms of the Subscription was fixed), as quoted on the Stock Exchange;
- (b) a premium of approximately 29.3% over the closing price of HK\$1.60 per Share on the Last Trading Day, as quoted on the Stock Exchange; and

LETTER FROM THE BOARD

- (c) a premium of approximately 30.4% over the average closing price of HK\$1.59 per Share for the last five consecutive trading days (including and up to the Last Trading Day), as quoted on the Stock Exchange.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the recent trading price of the Shares and the business prospects of the Group. The Directors consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

During the 12-month period immediately preceding the date of the Announcement, the Company had not undertaken any rights issue, open offer or specific mandate placing. The Subscription under the Specific Mandate on its own would not result in a theoretical dilution effect (as defined in Rule 7.27B of the Listing Rules) of 25% or more up to the date of the Announcement.

Conditions precedent to Completion

Completion is conditional upon the following conditions being fulfilled or waived (as the case may be):

- (a) the listing approval for the listing of, and permission to deal in, the Subscription Shares having been granted and not having been subsequently revoked prior to or on the date of Completion;
- (b) the passing of the relevant resolutions by way of poll at the EGM by the Independent Shareholders who are entitled to vote and who are not required to abstain from voting under the Listing Rules, the Takeovers Code and other applicable laws and regulations for approving the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Subscription Shares);
- (c) the SFC Waiver having been granted, either unconditionally or subject to any conditions that are reasonably acceptable to the Company and the Subscriber (it being acknowledged that any condition requiring the approval of Shareholders other than those who are required to abstain from voting under the Takeovers Code is acceptable to the Company and the Subscriber), and such waiver not having been subsequently revoked prior to or on the date of Completion;

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- (d) no indication being received prior to Completion from the Stock Exchange or the SFC to the effect that the listing of the Shares on the Main Board of Stock Exchange shall or may be withdrawn or objected to; and
- (e) the warranties made or given by the Company under the Subscription Agreement remaining true, accurate and not misleading in all material respects.

None of the parties to the Subscription Agreement shall have the right to waive any of the conditions under (a), (b), (c) and (d) above. The Subscriber may in its absolute discretion at any time before Completion waive the condition under (e) by notice in writing to the Company and such waiver may be subject to such terms and conditions as may be agreed between the Subscriber and the Company in writing.

The Company shall use its reasonable endeavours to procure the fulfilment of the conditions precedent set out in (a), (b), (d) and (e) above. The Subscriber shall use its reasonable endeavours to procure the fulfilment of the condition precedent set out in (c) above.

In the event that the conditions precedent are not fulfilled or waived (if applicable) on or before 31 May 2019, the Subscription Agreement, save in respect of the survival provisions, shall terminate and the obligations of the parties to the Subscription Agreement shall immediately cease and be null and void.

Completion

Subject to the conditions precedent having been fulfilled or waived (as applicable), Completion will take place on the third Business Day after the date on which all the conditions precedent have been fulfilled or (if applicable) waived, or such other date as the parties may agree in writing.

On the date of Completion, the Subscriber shall pay to the Company the total Subscription Price of HK\$1,582,020,000 and the Subscription Shares shall be allotted and issued to the Subscriber which shall rank *pari passu* among themselves (and shall rank in full for dividends and other distributions declared or paid thereafter) and with the Shares then in issue and be free from all encumbrances.

LETTER FROM THE BOARD

Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank *pari passu* amongst themselves and with all the other Shares in issue at the time of allotment and issue of the Subscription Shares.

Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

Application for listing from the Stock Exchange

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the Subscription Shares.

Proposed Distribution by SWHY BVI

The Company is given to understand that the Subscriber will, after completion of the Subscription, procure Venture-Some to request SWHY BVI to distribute the entire shareholding in the Company by way of distribution in specie or share transfer to SWHY BVI's current shareholders, namely, Venture-Some, Shanghai Industrial and First Shanghai, following which Venture-Some, Shanghai Industrial and First Shanghai are expected to hold directly 244,825,535 Shares, 80,280,188 Shares and 77,396,589 Shares, representing approximately 15.68%, 5.14% and 4.96% of the enlarged issued Shares, respectively. While based on such understanding, the Company expects the Proposed Distribution to be effected after completion of the Subscription, the Company has not entered into any binding agreement to contractually provide for the Proposed Distribution and the Subscription to be inter-conditional upon each other. The Company, nonetheless, notes that according to the memorandum and articles of association of SWHY BVI, the resolutions to approve the Proposed Distribution can be passed by a simple majority of the votes of the shares that are present at the meeting of its shareholders. As at the Latest Practicable Date, SWHY BVI is held directly as to 60.82% by Venture-Some, which has indicated to the Company that it will vote in favour of such resolutions to approve the Proposed Distribution.

The Company is also given to understand that the Proposed Distribution, together with the Subscription, will streamline the shareholding structure of the Group and also allow First Shanghai and Shanghai Industrial to have a direct equity stake in the Company without affecting the control of Shenwan Hongyuan Group Co., Ltd. in the Company.

LETTER FROM THE BOARD

Immediately after the Subscription and the Proposed Distribution, SWHY International, together with the other relevant persons acting in concert (i.e., SWHY BVI or Venture-Some (as the case may be)), will hold an aggregate of 1,170,808,569 Shares and 1,013,131,792 Shares, representing approximately 75.00% and 64.90% of the voting rights in the Company after the Subscription and the Proposed Distribution, respectively.

Information about SWHY International

The Subscriber is an investment holding company, the controlling shareholder of both SWHY BVI and the Company. It is also a wholly-owned subsidiary of Shenwan Hongyuan Securities Co., Ltd., which in turn, is wholly-owned by Shenwan Hongyuan Group Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000166).

Reasons for and benefits of the Subscription

The Company entered into the Subscription Agreement to raise new capital for the purposes stated in the section headed “Use of Proceeds” below. The Directors consider that the Subscription is in line with the Company’s development need and growth strategy. It also reflected the confidence and commitment to support the development of the Company by SWHY International, the controlling shareholder of the Company. The Subscription is expected to accelerate the Company’s growth by further strengthening the capital base and financial position of the Company.

Other than the Subscription, the Company has also considered the feasibility of other fund raising methods, such as debt financing and other forms of equity financing. For debt financing, the Directors consider it would be more practicable for the Group to expand its equity capital base before it can carry out any debt financing exercise in a cost-effective manner.

The Directors have also considered conducting a rights issue or open offer to allow all Shareholders to maintain their respective pro-rata shareholding in the Company and at the same time strengthening the capital base of the Company. However, taking into account the current challenging stock market sentiment, such fund raising exercises, in view of its relatively large fund raising size, would be relatively more time-consuming, administratively burdensome and cost-ineffective as compared with a subscription of new Shares by SWHY International, which can provide a higher certainty of successful funding. As the Subscription constitutes a connected transaction of the Company under the Listing Rules, it is subject to Independent Shareholders’ approval at the EGM and hence allows the Independent Shareholders to assess the potential dilution impact on them against the potential benefits to be brought about by the Subscription.

LETTER FROM THE BOARD

Use of proceeds

The gross proceeds to be received by the Company will amount to HK\$1,582,020,000. After taken into account the estimated expenses related to the Subscription, the estimated maximum net proceeds will amount to approximately HK\$1,580,060,900, representing the net price per Subscription Share payable to the Company of approximately HK\$2.065 per Share.

The Company intends to apply the net proceeds for the following purposes:

- (a) reinforcing and developing existing businesses, including:
 - (i) corporate finance business to strengthen the capital requirements of the corporate finance business, expand the financial capacity for underwriting transactions, and increase the relevant human resources expenditure for the overall expansion of business
 - (ii) asset management business to set up required seed funding and the relevant increase in human resources expenditures for the expansion of business
 - (iii) retail brokerage business to enhance the business scale of the brokerage business through team expansion, sales channel building and improving product development capabilities
 - (iv) back end system upgrade to upgrade IT systems to enhance the capabilities in handling front-office transactions, risk management in the middle office, as well as back-office settlement and clearing to further strengthen the IT support for the business growth of the Group
 - (v) general working capital

LETTER FROM THE BOARD

- (b) strategic expansion, including:
- (i) expanding institutional sales team and debt capital markets business and developing foreign exchange trading business to support and meet the capital requirements of the market-making business and the human resources expenditure of expanding the relevant sales and market-making business teams
 - (ii) developing overseas branches to expand the team size and enhance the system of the Company's overseas branches. The Company aims to explore opportunities to expand cross-border securities and foreign exchange business transactions in Hong Kong, Singapore and London, as well as strategically develop a business platform for selling/developing third party financial products (including but not limited to funds, insurance and trusts)

The following table sets out a breakdown of the current intended use of the net proceeds:

	Amount <i>(HK\$ million)</i>	Percentage to the total net proceeds
(a) Reinforcing and developing existing businesses		
(i) corporate finance business	493.8	31.25%
(ii) asset management business	395.0	25.00%
(iii) retail brokerage business	158.0	10.00%
(iv) back end system upgrade	118.5	7.50%
(v) general working capital	98.8	6.25%

LETTER FROM THE BOARD

	Amount (HK\$ million)	Percentage to the total net proceeds
(b) Strategic expansion		
(i) expanding institutional sales team and debt capital markets business and developing foreign exchange trading business	197.5	12.50%
(ii) developing overseas branches	118.5	7.50%

Equity fund raising activities in the past twelve months

The Company has not carried out any equity fund raising activities in the twelve months immediately preceding the Latest Practicable Date.

Effect on the shareholding of the Company

The shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) immediately after completion of the Subscription and (iii) immediately after completion of the Subscription and the Proposed Distribution is as follows:

Name of Shareholders	As at the Latest Practicable Date		Immediately after completion of the Subscription		Immediately after completion of the Subscription and the Proposed Distribution	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
SWHY BVI ^{Note 1}	402,502,312	50.56	402,502,312	25.78	–	–
SWHY International	3,306,257	0.42	768,306,257	49.22	768,306,257	49.22
Venture-Some ^{Note 2}	–	–	–	–	244,825,535	15.68
Public Shareholders						
First Shanghai ^{Note 2}	–	–	–	–	77,396,589	4.96
Shanghai Industrial ^{Note 2}	–	–	–	–	80,280,188	5.14
Other public Shareholders	390,330,120	49.02	390,330,120	25.00	390,330,120	25.00
Total	796,138,689	100.00	1,561,138,689	100.00	1,561,138,689	100.00

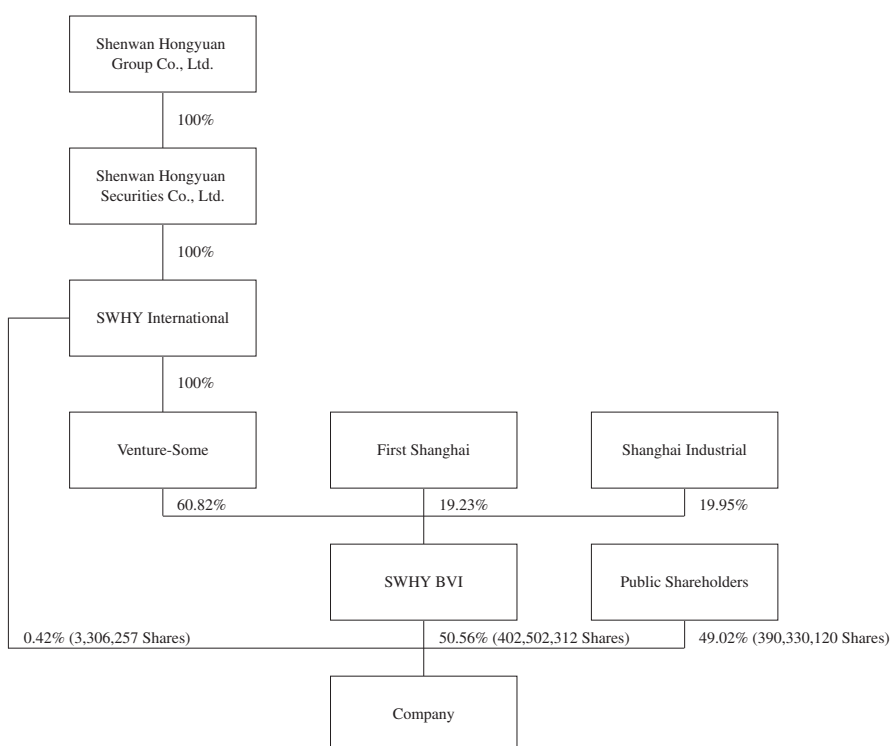
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Notes:

1. As at the Latest Practicable Date, SWHY BVI is held by Venture-Some, First Shanghai and Shanghai Industrial as to approximately 60.82%, 19.23% and 19.95%, respectively.
2. The direct shareholding in the Company to be held by each of Venture-Some, First Shanghai and Shanghai Industrial will be a result of the distribution of the entire shareholding in the Company by way of distribution in specie or share transfer by SWHY BVI to its current shareholders.

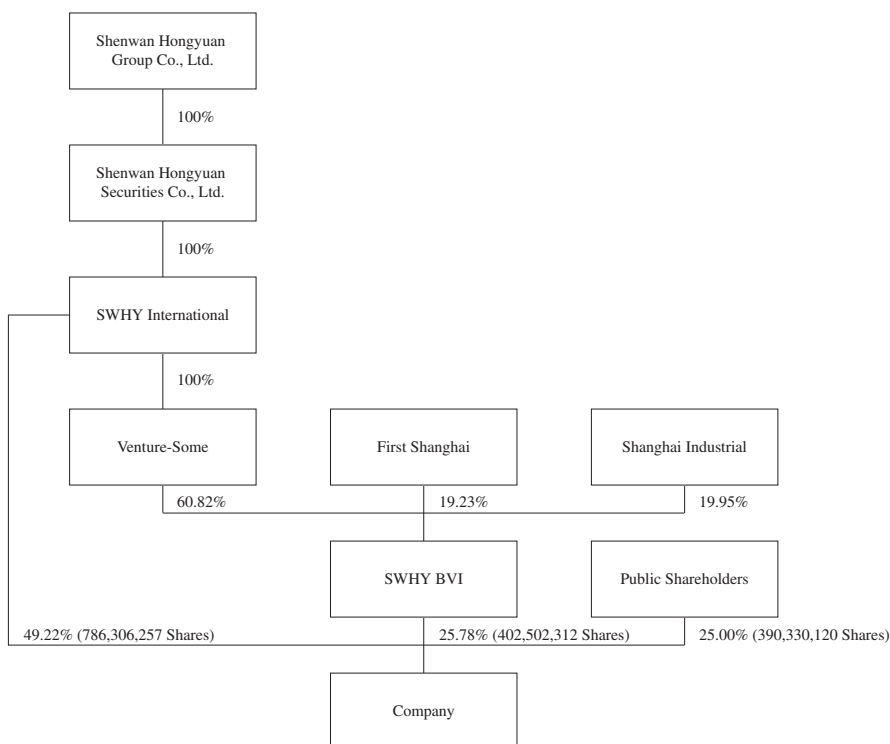
The following diagrams illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) immediately after completion of the Subscription and (iii) immediately after completion of the Subscription and the Proposed Distribution:

(i) As at the Latest Practicable Date

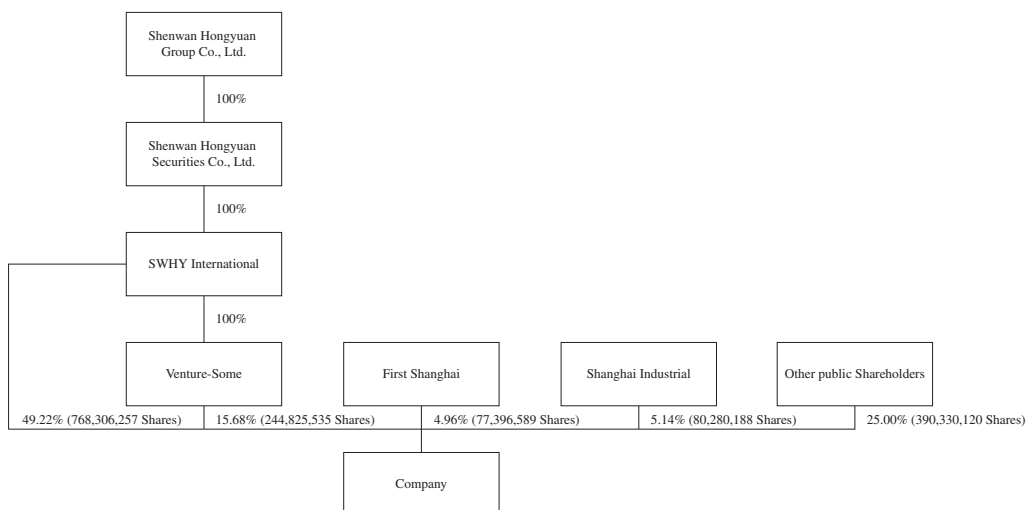


LETTER FROM THE BOARD

(ii) Immediately after completion of the Subscription



(iii) Immediately after completion of the Subscription and the Proposed Distribution



LETTER FROM THE BOARD

Implications under the Listing Rules

Mr. Zhu Minjie, Mr. Chen Xiaosheng, Mr. Zhang Jian, Mr. Guo Chun and Mr. Qiu Yizhou are considered to have a material interest in the Subscription and have voluntarily abstained from voting on board resolutions relating to the Subscription.

The Subscriber directly and indirectly holds an aggregate of 405,808,569 Shares, representing approximately 50.98% of the issued Shares of the Company as at the Latest Practicable Date, and therefore, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Subscription Shares will be issued under the Specific Mandate which is subject to Independent Shareholders' approval at the EGM.

Implications under the Takeovers Code

As the direct equity stake of SWHY International in the Company will increase from approximately 0.42% of the issued Shares as at the Latest Practicable Date to approximately 49.22% of the then issued Shares as enlarged by the issue of the Subscription Shares, immediately after the Completion, which is in excess of the 30% mandatory offer threshold prescribed by Rule 26 of the Takeovers Code, the Subscriber has applied to the Executive for a waiver that neither SWHY International nor persons acting in concert with it will be required to make a mandatory general offer as a result of the allotment and issue of the Subscription Shares to the Subscriber pursuant to the Subscription Agreement, on the basis that SWHY International, together with the other relevant persons acting in concert with it, holds more than 50% of the voting rights of the Company at all material times immediately before and after the Subscription and the Proposed Distribution.

On 19 December 2018, the Executive confirmed that it had waived the obligation on the part of SWHY International to make a general offer for the Shares arising as a result of the Subscription and the Proposed Distribution.

(2) PROPOSAL FOR RE-ELECTION OF DIRECTORS

Reference is made to the announcement of the Company dated 28 November 2018 in relation to the appointment of Directors. Pursuant to Article 95 of the Articles, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election. Accordingly, Mr. Zhang Jian and Mr. Chen Liqiang will retire as Directors at the EGM and, being eligible, offer themselves for re-election.

LETTER FROM THE BOARD

Recommendations to the Board for the proposal for re-election of Mr. Zhang Jian and Mr. Chen Liqiang as Directors were made by the nomination committee of the Company, after having reviewed their biographical and background information (including but not limited to skills, knowledge, professional experience, gender, age, cultural and educational background as set out in the board diversity policy of the Company). The nomination committee of the Company has also assessed the independence of Mr. Chen Liqiang by reference to the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Board has taken into account their contributions to the Company, accepted the recommendations from the nomination committee of the Company and recommended Mr. Zhang Jian and Mr. Chen Liqiang to stand for re-election by Shareholders at the EGM.

Biographical details of the Directors to be re-elected at the EGM which are required to be disclosed under the Listing Rules are set out in Appendix II to this circular.

(3) THE EGM AND THE NOTICE

A notice convening the EGM is set out on pages 50 to 51 of this circular. The EGM will be held for the purposes of considering and, if thought fit, approving the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Subscription Shares under the Specific Mandate, and the re-election of Directors.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's share registrar, Tricor Tengis Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any votes of shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the chairman of the EGM will demand a poll for the resolution put forward at the EGM in respect of all the resolutions stated in the notice of the EGM.

LETTER FROM THE BOARD

The Subscriber directly and indirectly holds an aggregate of 405,808,569 Shares, representing approximately 50.98% of the issued Shares as at the Latest Practicable Date, and therefore, is a connected person of the Company under Chapter 14A of the Listing Rules. To the best of the knowledge, information and belief of the Directors, save for SWHY International, SWHY BVI and their respective associates, no other Shareholder has a material interest in the Subscription Agreement. In accordance with the Listing Rules, SWHY International, SWHY BVI and their respective associates will be required to abstain from voting on the resolution(s) in respect of the Subscription at the EGM.

RECOMMENDATIONS

The Independent Board Committee, comprising all the independent non-executive Directors, namely, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang, has been established to advise the Independent Shareholders regarding the terms of the Subscription Agreement and the Specific Mandate. Having taken into account the terms of the Subscription Agreement, the information stated in the Letter from the Board and the Letter from the Independent Financial Adviser, the Independent Board Committee considers that although the Subscription is not conducted in the ordinary and usual course of business of the Company, the terms of the Subscription Agreement are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate. The full text of the Letter from the Independent Board Committee is set out on page 20 of this circular.

Somerley Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription Agreement and the Specific Mandate. Having taken into consideration the factors and reasons stated in the Letter from the Independent Financial Adviser, Somerley Capital is of the opinion that although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Company, it is on normal commercial terms, its terms are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, Somerley Capital recommends the Independent Shareholders to vote, and the Independent Board Committee to advise the Independent Shareholders to vote, in favour of the relevant resolution(s) to be proposed at the EGM to approve the Subscription Agreement. The full text of the Letter from the Independent Financial Adviser is set out on pages 21 to 42 of this circular.

LETTER FROM THE BOARD

Having considered the factors stated in the paragraph headed “Reasons For and Benefits of the Subscription” of the Letter from the Board, the Directors are of the view that the terms of the Subscription Agreement are normal commercial terms, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

The Board is also pleased to recommend the re-election of Mr. Zhang Jian and Mr. Chen Liqiang as Directors whose biographical details are set out in Appendix II to this circular for Shareholders’ consideration. The Board therefore recommends the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

WARNING OF RISKS OF DEALING IN SHARES

SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD NOTE THAT COMPLETION OF THE SUBSCRIPTION AGREEMENT IS CONDITIONAL UPON THE SATISFACTION OF CERTAIN CONDITIONS PRECEDENT AND THEREFORE MAY OR MAY NOT PROCEED. SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD THEREFORE EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY. PERSONS WHO ARE IN DOUBT AS TO THE ACTION THEY SHOULD TAKE SHOULD CONSULT THEIR PROFESSIONAL ADVISERS.

ADDITIONAL INFORMATION

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

Yours faithfully
By order of the Board
Shenwan Hongyuan (H.K.) Limited
Zhu Minjie
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

16 January 2019

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION IN RELATION TO
THE SUBSCRIPTION OF NEW SHARES BY A CONNECTED PERSON
UNDER SPECIFIC MANDATE**

We have been appointed to form an independent board committee to consider and advise you on the terms of the Subscription Agreement and the Specific Mandate, details of which are set out in the circular issued by the Company to the Shareholders dated 16 January 2019 (the “Circular”), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board set out on pages 5 to 19 of the Circular, and the letter of advice from the Independent Financial Adviser set out on pages 21 to 42 of the Circular, and the additional information set out in the Appendix to the Circular.

Having taken into consideration the terms of the Subscription Agreement and the advice of the Independent Financial Adviser, we concur with the view of the Independent Financial Adviser and consider that although the Subscription is not conducted in the ordinary and usual course of business of the Company, the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

Yours faithfully,

For and on behalf of the Independent Board Committee

Ng Wing Hang Patrick
*Independent non-executive
Director*

Kwok Lam Kwong Larry
*Independent non-executive
Director*

Chen Liqiang
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

16 January 2019

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

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSON UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription and the Specific Mandate. Details of the Subscription and the Specific Mandate are set out in the circular of the Company dated 16 January 2019 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 14 December 2018, the Company and the Subscriber entered into the Subscription Agreement in relation to the subscription of 765,000,000 Subscription Shares at the Subscription Price of HK\$2.068 per Subscription Share. The Subscription Shares represent approximately (i) 96.09% of the existing issued Shares as at the Latest Practicable Date; and (ii) 49.00% of the issued Shares as enlarged by the issue of the Subscription Shares. The Subscription Shares will be allotted and issued under the Specific Mandate to be sought at the EGM. The Subscriber directly and indirectly holds an aggregate of 405,808,569 Shares, representing approximately 50.98% of the issued Shares as at the Latest Practicable Date, and therefore, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang, has been established to advise the Independent Shareholders regarding the terms of the Subscription and the Specific Mandate and on how they should vote at the EGM. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice, we have reviewed, among other things, the Subscription Agreement, the annual reports of the Company for the financial years ended 31 December 2016 and 31 December 2017 (the “**2017 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2018 (the “**2018 Interim Report**”), and the information contained in the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group, and have assumed that they were true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors, that all material relevant information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Subscriber or any of their respective associates, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the Latest Practicable Date and will continue to be true up to the time of the EGM, and that the Independent Shareholders will be informed as soon as reasonably practicable if we become aware of any material change to such information provided and representations made.

We are not associated with the Company, the Subscriber, or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the Subscription Agreement and the transactions contemplated thereunder. Apart from the normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, the Subscriber, or their respective substantial shareholders or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of the Group and the Subscriber

The Group is principally engaged in financial businesses through five segments comprising (1) brokerage segment, (2) corporate finance segment, (3) asset management segment, (4) financing and loans segment, and (5) investment segment.

The Subscriber is an investment holding company, the controlling shareholder of both SWHY BVI and the Company. It is also a wholly-owned subsidiary of Shenwan Hongyuan Securities Co., Ltd., which in turn, is wholly-owned by Shenwan Hongyuan Group Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000166).

2. Reasons for and benefits of the Subscription and use of proceeds

As stated in the letter from the Board set out in the Circular, the Company entered into the Subscription Agreement to raise new capital for the purposes stated in this section. The Directors consider that the Subscription is in line with the Company's development need and growth strategy. It also reflected the confidence and commitment to support the development of the Company by SWHY International, the controlling shareholder of the Company. The Subscription is expected to accelerate the Company's growth by further strengthening the capital base and financial position of the Company.

The gross proceeds to be received by the Company will amount to HK\$1,582,020,000. After taken into account the estimated expenses related to the Subscription, the estimated maximum net proceeds will amount to approximately HK\$1,580,060,900, representing the net price per Subscription Share payable to the Company of approximately HK\$2.065 per Share.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company intends to apply the net proceeds for the following purposes:

- (a) reinforcing and developing existing businesses, including:
 - (i) *corporate finance business* - to strengthen the capital requirements of the corporate finance business, expand the financial capacity for underwriting transactions, and increase the relevant human resources expenditure for the overall expansion of business;
 - (ii) *asset management business* - to set up required seed funding and the relevant increase in human resources expenditures for the expansion of business;
 - (iii) *retail brokerage business* – to enhance the business scale of the brokerage business through team expansion, sales channel building and improving product development capabilities;
 - (iv) *back end system upgrade* – to upgrade IT systems to enhance the capabilities in handling front-office transactions, risk management in the middle office, as well as back-office settlement and clearing to further strengthen the IT support for the business growth of the Group; and
 - (v) *general working capital*
- (b) strategic expansion, including:
 - (i) *expanding institutional sales team and debt capital markets business and developing foreign exchange trading business* – to support and meet the capital requirements of the market-making business and the human resources expenditure of expanding the relevant sales and market-making business teams; and
 - (ii) *developing overseas branches* – to expand the team size and enhance the system of the Company’s overseas branches. The Company aims to explore opportunities to expand cross-border securities and foreign exchange business transactions in Hong Kong, Singapore and London, as well as strategically develop a business platform for selling/developing third party financial products (including but not limited to funds, insurance and trusts).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table sets out a breakdown of the current intended use of the net proceeds:

Table 1: Use of proceeds

	Amount <i>(HK\$ million)</i>	% to the total net proceeds
(a) Reinforcing and developing existing businesses		
(i) corporate finance business	493.8	31.25%
(ii) asset management business	395.0	25.00%
(iii) retail brokerage business	158.0	10.00%
(iv) back end system upgrade	118.5	7.50%
(v) general working capital	98.8	6.25%
 (b) Strategic expansion		
(i) expanding institutional sales team and debt capital markets business and developing foreign exchange trading business	197.5	12.50%
(ii) developing overseas branches	118.5	7.50%

We have a discussion with the management of the Group as regards the use of proceeds and strategic plan of the Group. We are given to understand that the primary reason for undertaking the fund raising exercise by way of equity is to enhance the capital base and strengthen the balance sheet of the Group in order to catch up with its peers. As shown in Table 7 below, there are 19 comparable companies and the Company ranked towards the low end of the list in terms of market capitalization and net assets. The Subscription is considered essential for the Group's future business development with a view to establishing a more competitive role in underwriting and capital markets businesses in Hong Kong. Upon completion, the Company will have a much larger capital base which is believed to help increase the Company's competitiveness in the investment banking sector. A strong net assets base is not only believed to be one of the keys to gain clients' confidence and secure new advisory, sponsorship and underwriting deals, but also an important prerequisite to support the risk management for the Company's envisaged future growth plan across a number of other business lines. The Group also aims to significantly expand its wealth management business providing high net worth customers with a wide range of investment products and fixed income business providing corporate clients additional means of fund raising other than equity.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Financial information of the Group

Financial results

Set out below is a summary of the audited financial results of the Group for the years ended 31 December 2013, 2014, 2015, 2016 and 2017, and unaudited financial results of the Group for the six months ended 30 June 2017 and 2018 as extracted from the 2017 Annual Report and the 2018 Interim Report.

Table 2: A summary of audited financial results of the Group

	For the year ended 31 December					For the six months ended 30 June	
	2013	2014	2015	2016	2017	2017	2018
	HK\$ million (audited)	HK\$ million (audited)	HK\$ million (audited)	HK\$ million (audited)	HK\$ million (audited)	HK\$ million (unaudited)	HK\$ million (unaudited)
Revenue	354.0	473.3	696.6	416.5	545.9	257.3	284.7
Segment Revenue (Note): –							
– Brokerage business	208.0	262.9	389.9	217.4	248.1	103.7	139.5
– Corporate finance business	22.9	59.3	114.2	46.8	98.7	62.9	34.7
– Asset management business	9.3	11.5	9.5	3.2	9.5	3.1	16.9
– Financing and loans business	95.7	124.0	170.6	149.0	174.0	81.5	97.9
– Investment and other business	18.1	15.4	13.5	1.2	26.4	11.0	1.3
Profit attributable to shareholders of the Company	47.2	93.9	184.3	82.3	104.1	45.2	52.4

Note: It refers to segment revenue and other gains/(losses) from external customers as extracted from the Company's annual reports.

Revenue and profit attributable to shareholders of the Company

The Group's revenue and profit attributable to shareholders of the Company registered remarkable positive growth from 2013 to 2015, ranging from approximately HK\$354.0 million to HK\$696.6 million and HK\$47.2 million to HK\$184.3 million respectively, representing a compound annual growth rate of 40.3% and 97.6% respectively, mostly contributed by the increase in brokerage business and financing and loans business as the Company proactively expanded the revenue development of stock channels as well as its loan size. The revenue and profit attributable to shareholders of the Company dropped to HK\$416.4 million and HK\$82.3 million respectively in 2016, representing a year-on-year decrease of 40.2% and 55.3% respectively, mainly due to the overall decrease in the major segments, especially sharp decreases in the brokerage business revenue at 44.2% and corporate finance revenue at 59.0%, resulting from a series of uncertainties in global financial market of 2016 including the economic slowdown in the PRC, the continued decline in the oil

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

price, the possible interest rate hike in the U.S. and the withdrawal of the United Kingdom from the European Union. Then the revenue and profit attributable to the shareholders of the Company resumed its upward trend in 2017 increasing from HK\$416.4 million in 2016 to HK\$545.9 million in 2017 and from HK\$82.3 million in 2016 to HK\$104.1 million in 2017 respectively, representing a year-on-year increase of 31.1% and 26.5% respectively, as a result of a sound recovery in the brokerage business achieved by the Company's great efforts in exploring cross-border products and expanding new markets.

The Group's revenue and profit attributable to shareholders of the Company for the six months ended 30 June 2018 was approximately HK\$284.7 million and HK\$52.4 million respectively, representing an increase of approximately 10.6% and 15.9% respectively as compared to the corresponding period in 2017. The increase was mainly attributable to the strong growth in brokerage business, which could be explained by the Group's continued efforts in developing its various businesses and proactively introducing clients to participate in overseas stock markets and global futures markets for the first half of 2018 as compared to the corresponding period in 2017.

Financial position

Set out below is a summary of the unaudited consolidated financial position of the Company as at 30 June 2018 as extracted from the 2018 Interim Report and the audited consolidated financial position of the Company as at 31 December 2017 as extracted from the 2017 Annual Report.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 3: A summary of consolidated financial position of the Group

	As at 30 June 2018	As at 31 December 2017
	<i>HK\$ million</i> (unaudited)	<i>HK\$ million</i> (audited)
Total non-current assets	63.1	57.2
Total current assets	8,050.7	7,629.1
TOTAL ASSETS	8,113.8	7,686.3
Total current liabilities	5,944.5	5,521.6
Total non-current liabilities	1.2	1.2
TOTAL LIABILITIES	5,945.7	5,522.8
NET CURRENT ASSETS	2,106.2	2,107.5
NET ASSETS	2,168.1	2,163.5
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	2,165.5	2,161.0
Net asset value (“NAV”) per Share (HK\$)	2.7	2.7
Gearing ratio	73.3%	71.9%

As at 30 June 2018

As at 30 June 2018, total assets of the Group amounted to approximately HK\$8,113.8 million, representing an increase of approximately HK\$427.5 million from 31 December 2017. The increase mainly stemmed from an increase in bank balances held on behalf of clients by approximately HK\$544.5 million, partly offset by a decrease in cash and bank balances by approximately HK\$102.6 million. Total liabilities of the Group amounted to approximately HK\$5,945.7 million as at 30 June 2018, representing a rise of approximately HK\$422.9 million from 31 December 2017. The rise was mainly attributable to an increase in account payable by approximately HK\$651.4 million, partially offset by a decrease in interest-bearing bank borrowings by approximately HK\$233 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June 2018, the NAV per Share was approximately HK\$2.7, calculated by dividing the NAV of the Group attributable to the owners of the Company of approximately HK\$2,165.5 million by the number of Shares in issue as at 30 June 2018.

As disclosed in the 2018 Interim Report, the gearing ratio of the Group, represented by total liabilities as a percentage of total assets, was approximately 73.3% as at 30 June 2018, which is comparable to approximately 71.9% as at 31 December 2017.

As at 31 December 2017

As at 31 December 2017, total assets of the Group amounted to approximately HK\$7,686.3 million, mainly comprising loans and advances, bank balances held on behalf of clients, account receivables, cash and bank balances and investments at fair value through profit or loss. Total assets increased by approximately HK\$235.3 million as compared to 31 December 2016, which was mainly due to an increase in loans and advances and account receivables of approximately HK\$689.4 million, partially offset by a decrease in bank balances held on behalf of clients by approximately HK\$512.0 million. Total liabilities of the Group amounted to approximately HK\$5,522.8 million as at 31 December 2017, mainly comprising account payables and interest-bearing bank borrowings. Total liabilities increased by approximately HK\$163.6 million from 31 December 2016, which was mainly attributable to additional interest-bearing bank borrowings of approximately HK\$566.4 million, partially offset by a decrease in account receivables of approximately HK\$443.3 million.

As at 31 December 2017, the Group's net current asset recorded a moderate increase, amounting to approximately HK\$2,107.5 million as compared to the net current assets of approximately HK\$2,039.3 million as at 31 December 2016.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Principal terms of the Subscription Agreement

Set out below is a summary of the principal terms of the Subscription Agreement. Further details of the Subscription Agreement are set out in the letter from the Board contained in the Circular.

Table 4: Key terms of the Subscription Agreement

Date:	14 December 2018
Parties:	(1) the Company (as the issuer) (2) SWHY International (as the Subscriber)
No. of Subscription Shares:	765,000,000 Subscription Shares
Subscription Price:	HK\$2.068
Key conditions precedent:	(1) the approval for the listing of, and permission to deal in, the Subscription Shares having been granted; (2) the passing of the relevant resolutions by way of poll at the EGM by the Independent Shareholders; and (3) the SFC Waiver having been granted
Completion:	the third Business Day after the date on which all the conditions precedent have been fulfilled or (if applicable) waived or such other date as the parties may agree in writing
Long stop date:	31 May 2019

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Evaluation of the Subscription Price

A comparison of the Subscription Price of HK\$2.068 with the recent closing prices of the Shares is set out as follows:

Table 5: A comparison of the Subscription Price with recent closing prices

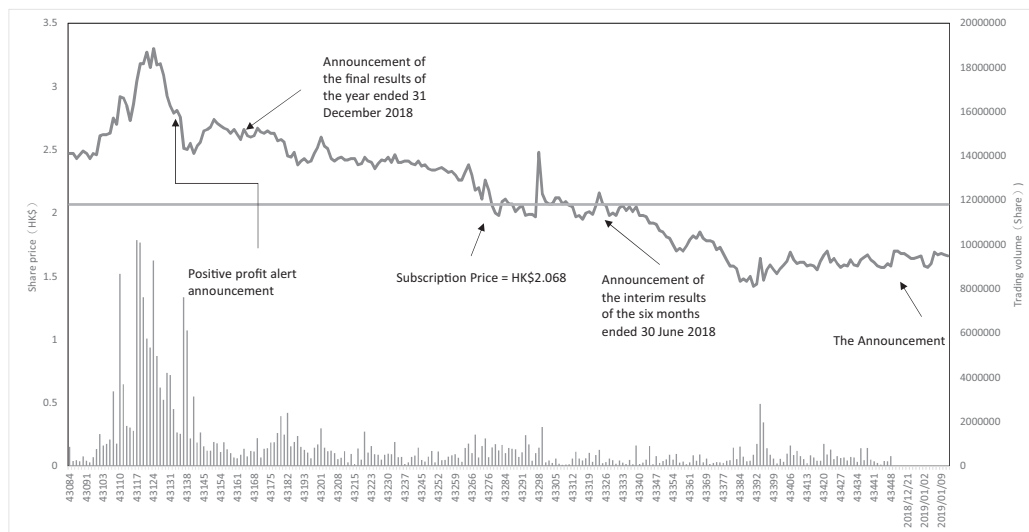
	Average closing price of the Shares	Premium
14 December 2018 (“LTD”)	HK\$1.58	30.9%
5-day	HK\$1.59	30.1%
10-day	HK\$1.61	28.4%
30-day	HK\$1.61	28.4%
90-day	HK\$1.73	19.5%
180-day	HK\$2.01	2.9%
Latest Practicable Date	HK\$1.66	24.5%

Historical Share price performance

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 15 December 2017, being one year prior to the date of the Subscription Agreement up to and including the Latest Practicable Date (the “**Review Period**”). The Share price movement during the Review Period, which is considered to be a fair market value of the Company having taken into account the latest financial position and performance of the Group and market sentiment, is useful and relevant for conducting a reasonable comparison among the historical closing prices of the Shares and the Subscription Price. The Share price performance during the Review Period is illustrated as follows:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Figure 1: Share price performance during the Review Period



Source: Bloomberg

As illustrated in the chart above, the Share price closed in a range between HK\$1.42 and HK\$3.30 during the Review Period and higher than the Subscription Price in the first half and generally lower than that in the second half.

At the beginning of the Review Period, the Share price went up from HK\$2.50 to reach its highest of HK\$3.30 on 24 January 2018. A sharp correction was then seen. Despite a positive profit alert released on 2 February 2018 for the year ended 31 December 2017 in relation to an expected year-on-year increase of 27% in net profit, the Share price continued to fall and reached HK\$2.47 on 9 February 2018. The Share price then rebounded to HK\$2.60-HK\$2.70 level until the publication of the annual results announcement on 7 March 2018. The Share price continued its downward trend thereafter and fluctuated within a range of HK\$2.30 to HK\$2.50.

In mid-June 2018, the Share price has demonstrated another downward trend to fall from HK\$2.30 to HK\$2.00 on 27 June 2018. The Share price then closed in a narrow range of HK\$2.00-HK\$2.10. The Company announced its interim results for the six months ended 30 June 2018 on 10 August 2018, reporting a year-on-year increase of 16.0% in net profit. However, the Shares fell gradually and reached its lowest of HK\$1.42 on 18 October 2018 and then closed in a range of HK\$1.50 – HK\$1.70 thereafter.

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On 14 December 2018, the Announcement in relation to the Subscription was published. The closing price of the Shares increased from HK\$1.58 on the LTD to HK\$1.70 on 17 December 2018, being the first trading day after the publication of the Announcement, representing an increase of approximately 7.6%. In our view, the increase in the Share price might be due to a favourable market reaction to the Subscription following the Announcement. The Share price closed at HK\$1.66 on the Latest Practicable Date.

Comparable Issues

We have performed an analysis of comparable issues by searching the website of the Stock Exchange on a best effort basis for all share issues (the “**Comparable Issues**”) announced in the past 12 months by companies listed on the Stock Exchange which involved placing/subscription/issue of new shares of listed companies representing over 20% of the existing issued shares under specific mandate as at the date of the respective announcements and had been approved by shareholders.

We consider that a review period covering the past 12 months is appropriate as the Comparable Issues are considered relevant for the purpose of assessing recent market practice in relation to the setting of subscription prices under similar market conditions. Comparable Issues further back in time may not be indicative of the current market sentiment. Comparable Issues selected have excluded the share issues announced by (a) H-share companies and (b) listed companies which (i) were used to satisfy consideration for acquisition of assets; or (ii) had deficiency in assets at such time; or (iii) were under prolonged suspension at such time; or (iv) were under debt restructuring at such time; or (v) involved issuance of restricted stocks, as pricing basis is considered to be different from that of the Subscription, which are considered to be a fair and representative sample. It should be noted that the subject companies involved in the Comparable Issues may have different principal activities, market capitalisation, profitability and financial positions as compared to those of the Company. However, as the Comparable Issues can provide a general understanding of the pricing for this type of transaction in Hong Kong under the current market environment, we consider them relevant in assessing the fairness and reasonableness of the Subscription Price.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For each of the Comparable Issues identified, we compared the premium or discount of its issue/subscription price to (a) the closing price on the date of the announcement; (b) the average closing price for the 5, 10, and 30 trading days immediately prior to the release of the respective announcement; and (c) net asset value per share attributable to the owners of the companies prior to the release of the respective announcement, as summarised in the following table.

Table 6: Comparable Issues

Date of announcement	Company name (stock code)	Premium/(discount) of placing/subsription/issue price over/(to) average closing share price				Premium/(discount) of placing/subsription/issue price over/(to) NAV per share ^(Note)
		Date of the announcement	5-day	10-day	30-day	
13-Dec-17	IDG Energy Investment Group Limited (stock code: 650)	(27%)	(29%)	(29%)	(31%)	125%
14-Dec-17	TSC Group Holdings Limited (stock code: 206)	(30%)	(21%)	(19%)	(18%)	(35%)
21-Dec-17	New Focus Auto Tech Holdings Limited (stock code: 360)	(38%)	(38%)	(34%)	(30%)	395%
29-Dec-17	Chinese People Holdings Limited (stock code: 681)	0%	2%	2%	(1%)	(63%)
3-Jan-18	Huiyin Smart Community Co., Ltd (stock code: 1280)	(31%)	(30%)	(29%)	(26%)	168%
10-Jan-18	New Sports Group Limited (stock code: 299)	(22%)	(27%)	(32%)	(29%)	(37%)
2-Mar-18	Frontier Services Group Limited (stock code: 500)	(35%)	(31%)	(28%)	(23%)	120%
6-Mar-18	China Ocean Fishing Holdings Limited (stock code: 8047)	(22%)	(21%)	(20%)	(18%)	219%
15-Mar-18	U Banquet Group Holding Limited (stock code: 1483)	(11%)	(14%)	(14%)	(12%)	539%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company name (stock code)	Premium/(discount) of placing/subscription/issue price over/(to) average closing share price				Premium/(discount) of placing/subscription/issue price over/(to) NAV per share ^(Note)
		Date of the announcement	5-day	10-day	30-day	
17-Apr-18	TUS International Limited (stock code: 872)	(12%)	(11%)	(8%)	(10%)	2%
30-Apr-18	Cosmo Machinery Enterprises Limited (stock code: 118)	11%	7%	11%	12%	(64%)
6-Jul-18	Sinofortune Financial Holdings Limited (stock code: 8123)	5%	4%	3%	(1%)	17%
24-Jul-18	Shougang Concord International Enterprises Company Limited (“Shougang Concord”) (stock code: 697)	29%	30%	33%	25%	(33%)
9-Sep-18	FDG Electric Vehicles Limited (stock code: 729)	(5%)	(5%)	(8.2%)	(8.5%)	80%
Mean (simple average)		(13%)	(13%)	(12%)	(12%)	103%
Maximum		29%	30%	33%	25%	539%
Minimum		(38%)	(38%)	(34%)	(31%)	(64%)
The Subscription		31%	30%	28%	28%	(24%)

Source: Bloomberg and the website of the Stock Exchange

Note: The net asset value per share attributable to the owners of the companies are calculated based on the net asset attributable to the owners of companies as disclosed in their latest financial reports prior to the release of the announcements divided by the number of issued shares outstanding as referenced from their latest monthly returns prior to the release of the announcements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison of the Subscription Price with the closing price on the date of announcement and historical closing Share prices

A total of 14 Comparable Issues have been identified, of which 10 had the issue price represented discounts to their respective closing share prices on the date of relevant announcement and their respective historical closing share prices, ranging from 5% to 38%, 5% to 38%, 8% to 34% and 8% to 31% over their respective closing share prices on the date of announcement, 5-day, 10-day and 30-day average closing share prices with averages of 23%, 23%, 22% and 21% respectively. The remaining 4 Comparable Issues generally had the issue price represented premium over their respective closing share prices on the date of announcement and their respective historical closing share prices, ranging from 0% to 29%, 2% to 30%, 2% to 33% and -1% to 25% over their respective closing share prices on the date of announcement day, 5-day, 10-day and 30-day average closing share prices with averages of 11%, 11%, 12% and 8% respectively. Shougang Concord's share issue offered the highest premium of subscription price over the prevailing closing share prices ranging from 25% to 33%.

As set out in the table above, the Subscription Price represents premiums of 31% over the closing Share price on the date of the Announcement; and (b) a premium of approximately 30%, 28%, and 28% over the average closing prices for the 5, 10, and 30 trading days immediately prior to and including the date of the Announcement respectively. These premiums are close to those premiums offered by Shougang Concord.

Comparison of the Subscription Price with net asset value per Share

The Subscription Price represents a discount of approximately 24% to the latest NAV per Share, within the range of those of the Comparable Issues from a discount of 64% to a premium of 539% with an average of a premium of 103%. Those companies under the Comparable Issues would be subject to different valuation by the market based on their different industries, profitability and financial positions, with some companies traded above their NAV per share and some below before the proposed issuance of new shares, resulting in a rather wide range of price-to-book ratios ("PBRs") which would not be considered useful for our analysis.

The wide range of the premium over/discount to NAV per share as demonstrated by the Comparable Issues shows that it has not been a common market practice to have NAV per share as a pricing basis in an exercise similar to the Subscription.

Given that the closing Share price of the Company during the Review Period is lower than its NAV per Share in 232 days out of a total of 263 trading days, it would not be commercially feasible for the Company to secure subscriber(s) or placing agent(s) to agree on an issue price higher than or equal to the NAV per Share. As most of the Comparable Issues had the issue prices representing discounts to the prevailing market prices, the Company might possibly be subject to a deeper discount to NAV per Share if it has conducted the Subscription with other subscribers or through placing agents.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparable Companies

Based on Bloomberg and AASTOCKS's equity screening tools and with reference to the relevant company descriptions, we have also looked at and identified, on a best effort basis, profit-making companies listed in Hong Kong which are primarily engaged in the loan-financing, securities, futures and equity options trading and dealing, underwriting, and corporate advisory services and the largest shareholders of which are of PRC background which we consider to have a business and controlling shareholder background similar to the Company. Those comparable companies, which (i) focus on new economies business or (ii) are acquired by PRC enterprises and nationals in the past five years are excluded as the valuation of (i) is considered to be different from the traditional brokerage and investment banking business and the valuation of (ii) would have been affected due to various factors such as shell premium and change of strategic planning and business model as a result of the change in controlling shareholders, are considered to be a fair and representative sample. The comparable companies with their market capitalisation, price-earning ratios ("PERs") and PBRs are set out in the table below:

Table 7: Comparable Companies

Company	Stock code	Market capitalisation as at the date of the Subscription Agreement (HK\$ million)	Net Assets (HK\$ million)	PER (times) (Note 1)	PBR (times) (Note 2)
BOCOM International Holdings Company Limited	3329	3,828.1	6,168.3	8.75	0.62
Central China Securities Co., Ltd.	1375	6,693.5	10,050.1	15.73	0.58
China Galaxy Securities Co., Ltd.	6881	39,231.2	64,525.7	9.92	0.53
China Industrial Securities International Financial Group Ltd	6058	4,520.0	4,304.0	28.25	1.05
China International Capital Corp Ltd	3908	63,393.1	41,864.2	17.45	1.43
China Merchants Securities Co Ltd	6099	100,495.1	841,35.4	12.31	0.82
Cinda International Holdings Limited	111	404.0	790.3	6.09	0.51
CITIC Securities Co Ltd	6030	220,684.2	138,991.1	13.61	1.03
CSC Financial Co Ltd	6066	80,186.0	52,782.0	7.93	0.62
Everbright Securities Co Ltd	6178	47,288.3	54,818.0	10.03	0.62
First Shanghai Investments Limited	227	617.3	2,756.7	9.95	0.22
GF Securities Co Ltd	1776	106,618.2	85,233.2	8.85	0.91
Guolian Securities Co., Ltd.	1456	3,747.7	7,732.1	10.37	0.43
Guotai Junan International Holdings Limited	1788	9,876.1	10,780.3	7.23	0.92
Haitong International Securities Group Limited	665	15,053.3	25,849.0	4.60	0.58
Haitong Securities Co., Ltd.	6837	94,198.9	116,999.1	10.92	0.71
Huatai Securities Co Ltd	6886	148,338.8	92,996.6	8.93	0.92
Luzheng Futures Co Ltd	1461	1,262.4	2,484.1	6.91	0.51
Orient Securities Co Ltd	3958	62,626.5	54,813.5	8.31	0.65
			Average	10.85	0.72
			Maximum	28.25	1.43
			Minimum	4.60	0.22
The Company	218	1,257.9	2,168	24.01	0.58
				31.43⁽³⁾	0.76⁽³⁾

Source: Bloomberg and the website of the Stock Exchange and AASTOCKS

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

- (1) The PERs of the comparable companies are calculated based on the closing price of the respective companies as at date of the Subscription Agreement divided by the earnings per share of the respective companies as referenced from their most recently published annual reports.
- (2) The PBRs of the comparable companies are calculated based on the closing price of the respective companies as at date of the Subscription Agreement divided by net asset value per share of the relevant companies as referenced from their most recently published annual reports/interim results and the number of shares in issue as at the date of the Subscription Agreement.
- (3) The PER and PBR of the Company are calculated based on the Subscription Price of HK\$2.068.

A total of 19 comparable companies has been identified. As shown above, the PERs of the comparable companies ranged from 4.60 times to 28.25 times with an average of 10.85 times while 16 out of a total of 19 comparable companies had PBRs below 1 times ranging from 0.22 times to 0.92 times with an average of 0.63 times and the remaining above 1 times ranging from 1.03 times to 1.43 times with an average of 1.17 times. The Company's PER of 31.43 times and PBR of 0.76 times as represented by the Subscription Price is higher than and fall within the range (but higher than the average) of those of the comparable companies, respectively.

Conclusion

Given that (i) the Subscription Price represents significant premiums of 28% – 31% over various average Share prices during the 30-day period, which are very close to the high end of the Comparable Issue, despite the Share price closed in a range of HK\$1.40 – HK\$1.70 in the past 2.5 months before the Announcement, which is considered to be the lowest level during the 12-month period; (ii) it is the market practice to adopt the prevailing market price as the primary pricing basis for an exercise similar to the Subscription; and (iii) the prevailing market price of the Shares is lower than NAV per Share in 232 days out of a total of 263 trading days over the Review Period, we consider that the Subscription is fair and reasonable and in the interest of the Company and its Shareholders as a whole despite the Subscription Price represents a discount to NAV per Share. We also have looked at the comparable companies which are also engaged in similar businesses and have similar controlling shareholder background as the Company. Both PER and PBR of the Company as represented by the Subscription Price is higher than and within the range (but higher than the average) of those of the comparable companies.

On this basis, we are of the view that the pricing of the Subscription is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Financial effects of the Subscription

As set out in the letter from the Board contained in the Circular, the gross and net proceeds of the Subscription are estimated to be approximately HK\$1,582.02 million and HK\$1,580.06 million respectively.

As at 30 June 2018, the NAV per Share was approximately HK\$2.7, calculated by dividing the NAV of the Group attributable to the owners of the Company of approximately HK\$2,165.5 million by the number of Shares in issue as at 30 June 2018. Based on the unaudited financial position of the Group set out in the 2018 Interim Report and immediately upon Completion, it is expected that the NAV per Share will be reduced to HK\$2.4, representing a dilution of 11%. However, as shown in Table 6 above, it is noted that the prevailing market prices are the primary pricing basis for the Comparable Issues instead of NAV per Share and the pricing basis of the Subscription is in line with the market practice. Having considered the Subscription Price is fair and reasonable in market terms and the Subscription is beneficial to the Group as set out in the section headed “2. Reasons for and benefits of the Subscription and use of proceeds”, the potential impact on the NAV per Share is acceptable.

7. Effects of the Subscription on shareholdings in the Company

The Subscription Shares represent (i) approximately 96.09% of the existing issued Shares of the Company as at the Latest Practicable Date; and (ii) approximately 49.00% of the issued Shares of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no other change in the number of issued Shares after the Latest Practicable Date and before Completion).

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the Latest Practicable Date and the Completion).

Table 8: Shareholding of the Company as at the Latest Practicable Date and immediately after Completion

	As at the Latest Practicable Date		Immediately after Completion	
	Number of Shares	%	Number of Shares	%
SWHY BVI	402,502,312	50.56	402,502,312	25.78
SWHY International	3,306,257	0.42	768,306,257	49.22
Public Shareholders	<u>390,330,120</u>	<u>49.02</u>	<u>390,330,120</u>	<u>25.00</u>
Total	<u>796,138,689</u>	<u>100.00</u>	<u>1,561,138,689</u>	<u>100.00</u>

As shown in from the table above, the existing public Shareholders' shareholdings will be diluted from approximately 49.02% as at the Latest Practicable Date to approximately 25.00% immediately after the Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered (i) the benefits to be derived by the Group from the Subscription as set out in the section headed “2. Reasons for and benefits of the Subscription and use of proceeds” of this letter; (ii) that the Subscription Price represents significant premiums over 5-day, 10-day and 30-day averages as discussed under the section headed “5. Evaluation of the Subscription Price” of this letter; and (iii) that the subscription of new Shares by SWHY International provides a higher certainty of successful funding as discussed under the section headed “8. Alternative Financing” of this letter, we consider that the terms of the Subscription Agreement are fair and reasonable.

8. Alternative financing

The Directors have considered alternative fund raising methods, which include: (i) debt financing; and (ii) rights issue or open offer.

For debt financing, the Directors considered it would be more practicable for the Group to expand its equity capital base before it can carry out any debt financing exercise in a cost-effective manner. We have discussed with the management of the Group and are advised that the Group has been adopting risk management policy with most of tolerance thresholds (e.g. loan size, underwriting amount, etc.) subject to the net asset value of the Group. Therefore, the Group has a genuine need to enhance its equity capital in order for it to take up bigger transactions.

The Directors have considered conducting a rights issue or open offer to allow all Shareholders to maintain their respective pro-rata shareholding in the Company and at the same time strengthening the capital base of the Company. However, taking into account the current challenging stock market sentiment, such fund raising exercises, in view of its relatively large fund raising size, would be relatively more time-consuming, administratively burdensome and cost-ineffective as compared with a subscription of new Shares by SWHY International, which can provide a higher certainty of successful funding.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 9: Rights Issues with Premiums Over the Prevailing Market Prices in Hong Kong in 2018

Date of announcement	Company name (stock code)	Premium/(discount) of placing/subscription/issue price over/(to) average closing share price				Premium/(discount) of placing/subscription/issue price over/(to) NAV per share	Results
		Date of the announcement					
		5-day	10-day	30-day			
8-Feb-18	Century Ginwa Retail Holdings Limited (stock code: 162)	31%	26%	26%	25%	(91%)	4.74% of the total number of rights shares available for subscription was accepted. The underwriting agreement was subsequently terminated on 15 May 2018
21-Jun-18	Shanghai Prime Machinery Company Limited (stock code: 2345)	2%	1%	1%	(1%)	(53%)	10.43% of the total number of H rights shares available for subscription was accepted, of which 80.59% was contributed by the controlling shareholder.

Source: the website of the Stock Exchange

Note: The net asset value per share attributable to the owners of the companies are calculated based on the net asset attributable to the owners of companies as disclosed in their latest financial reports prior to the release of the announcements divided by the number of issued shares outstanding as referenced from their latest monthly returns prior to the release of the announcements.

We noted that there have been 27 rights issues announced by listed companies in Hong Kong in 2018 and only 3 of which have the issue price set at premiums over the prevailing market price, of which two announced the rights issue results in 2018 as shown in the table above. Both issues had been undersubscribed with one terminated eventually. On this basis, we concur with the Directors that the Subscription can provide a higher certainty of successful funding.

DISCUSSION

The Subscription will raise about HK\$1,580.1 million and involves over 96.1% of the Company's existing issued share capital. We are given to understand that the primary reason for undertaking the fund raising exercise by way of equity is to enhance the capital base and strengthen the balance sheet of the Group in order to enhance its market share. Equity fund raising is considered essential for the Group's future business development with a view to establishing a leading role in underwriting and financing businesses in Hong Kong. In such circumstances, SWHY International is demonstrating support through the Subscription and, in our view, it would possibly be the only source of secured additional capital of over HK\$1,500 million in the present circumstances.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Share price closed in a range of HK\$1.40 – HK\$1.70 in the past 2.5 months before the Announcement, which is considered to be the lowest level during the 12-month period, possibly due to the market sentiments. However, the Subscription Price represents 28% – 31% premium over the average closing prices during the 30-day period and such premiums are close to those premiums offered by Shougang Concord, which is the highest within the Comparable Issue.

The Subscription will involve dilution for the Independent Shareholders, both in terms of their shareholding percentage (from approximately 49.02% to approximately 25.00%) and in the NAV per Share (from about HK\$2.7 to HK\$2.4). However, in our view, the dilution is acceptable in view of the benefits brought about by the Subscription and its terms.

The Directors have considered alternative fund raising methods such as rights issue, open offer and debt financing. Given the terms of the Subscription, we concur with the Directors that the Subscription would not only provide a higher certainty of successful funding but also enable the Company to raise equity capital at an issue price representing premium over the prevailing market price.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Company, the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and that the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

Yours faithfully,
for and on behalf of

SOMERLEY CAPITAL LIMITED

Kenneth Chow	Jenny Leung
<i>Managing Director</i>	<i>Director</i>
<i>– Corporate Finance</i>	

Mr. Kenneth Chow and Ms. Jenny Leung are licensed persons and responsible officers of Somerley Capital Limited registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and have participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the 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 INTERESTS BY DIRECTORS AND CHIEF EXECUTIVE IN THE COMPANY

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

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

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

Names of Shareholders	Capacity and nature of interests	Long positions in Shares and underlying Shares	Shareholding percentage (%) <i>(Note 1)</i>
SWHY BVI	Directly beneficially owned	402,502,312 <i>(Note 2)</i>	50.56
Venture-Some	Through controlled corporation	402,502,312 <i>(Note 2)</i>	50.56
SWHY International	Through controlled corporation	402,502,312 <i>(Note 2)</i>	50.56
	Directly beneficially owned	768,306,257 <i>(Note 3)</i>	96.50
Shenwan Hongyuan Securities Co., Ltd.	Through controlled corporation	1,170,808,569 <i>(Notes 2 and 3)</i>	147.06
Shenwan Hongyuan Group Co., Ltd.	Through controlled corporation	1,170,808,569 <i>(Notes 2 and 3)</i>	147.06

Notes:

1. The percentages are calculated based on the total number of 796,138,689 issued Shares as at the Latest Practicable Date.
2. SWHY BVI is held directly as to 60.82% by Venture-Some. Venture-Some is wholly-owned by SWHY International which is in turn a wholly-owned subsidiary of Shenwan Hongyuan Securities Co., Ltd.. Shenwan Hongyuan Securities Co., Ltd. is wholly-owned by Shenwan Hongyuan Group Co., Ltd.. Hence, Venture-Some, SWHY International, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. are deemed to be interested in the same parcel of 402,502,312 shares held by SWHY BVI under the SFO.
3. As SWHY International has agreed to subscribe for 765,000,000 new Shares pursuant to the Subscription Agreement, it is deemed to be interested in such 765,000,000 Shares to be allotted and issued at Completion in addition to the 3,306,257 Shares currently directly held by it. By virtue of the relationship among SWHY International, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. as set out in note 2 above, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. are also deemed to be interested in the same parcel of 768,306,257 Shares held by SWHY International under the SFO.

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

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. COMPETING INTERESTS

As at the Latest Practicable Date, the following Directors are 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	Shenwan Hongyuan Securities Co., Ltd.	Deputy General Manager	Securities business
	Shenyin & Wanguo Investment Co. Ltd.	Director	Equity investment business
	SWS Research Co., Ltd.	Director	Securities research and consulting business
	SWS MU Fund Management Co., Ltd.	Director	Fund management business
	Shenyin Wanguo Futures Co., Ltd.	Director	Futures business

Name of Director	Name of entity	Nature of interest of the Director in the entity	Description of business of the entity
Chen Xiaosheng	Shenwan Hongyuan Securities Co., Ltd. SWS Research Co., Ltd.	Assistant to President Director	Securities business Securities research and consulting business
Zhang Jian	Shenwan Hongyuan Securities Co., Ltd. Shenwan Hongyuan Financing Services Co., Ltd.	Assistant to General Manager General Manager	Securities business Securities underwriting, sponsoring and financial advisory businesses
Guo Chun	Shenwan Hongyuan Securities Co., Ltd.	General Manager of International Business Division	Securities business
Zhang Lei	SICC Asset Management Company Limited	Director and Responsible Officer	Provision of asset management services
Kwok Lam Kwong Larry	First Shanghai Investments Limited	Non-executive Director	Financial investment, property investment and hotel investment
	CMB Wing Lung Bank Limited	Independent Non-executive Director	Provision of banking and related financial services
Chen Liqiang	Sailing Capital Advisors (Hong Kong) Limited	Vice President	Equity investment and mergers and acquisitions business consultation

6. DIRECTORS' INTEREST IN CONTRACTS OR ARRANGEMENTS

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had since 31 December 2017 (being the date to which the latest published audited financial statements of the Group were made up) been acquired by, disposed of by or leased to any member of the Group, or were proposed to be acquired by, disposed of by or leased to any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

The Subscription Agreement was the only contract (not entered into in the ordinary course of business of the Group) which had been entered into by the members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material.

10. EXPERT AND CONSENT

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

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

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

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

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been acquired by, disposed of by or leased to any member of the Group, or which are proposed to be acquired by, disposed of by or leased to any member of the Group since 31 December 2017 (being the date to which the latest published audited accounts of the Group were made up).

Somerley Capital issued a letter dated 16 January 2019 for the purpose of incorporation in this circular in connection with its recommendation to the Independent Board Committee and the Independent Shareholders.

11. CORPORATE INFORMATION OF THE GROUP

Registered office	Level 19, 28 Hennessy Road, Hong Kong
Share registrar and transfer agent	Tricor Tengis Limited
Company secretary	Wong Che Keung Leslie

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours (except Saturdays, Sundays and Hong Kong public holidays) from the date of this circular up to and including the date of the EGM at the head office and principal place of business in Hong Kong of the Company at Level 19, 28 Hennessy Road, Hong Kong:

- (a) the articles of association of the Company;
- (b) the “Letter from the Board”, the text of which is set out on pages 5 to 19 of this circular;
- (c) the “Letter from the Independent Board Committee”, the text of which is set out on page 20 of this circular;
- (d) the “Letter from the Independent Financial Adviser”, the text of which is set out on pages 21 to 42 of this circular;
- (e) the material contracts referred to in the paragraph headed “Material Contracts” of this appendix;
- (f) the written consent referred to in the paragraph headed “Expert and Consent” of this appendix;
- (g) the Subscription Agreement; and
- (h) this circular.

As at the Latest Practicable Date, biographical details of the Directors subject to re-election at the EGM are set out below:

Mr. Zhang Jian, aged 41, was appointed as an executive Director on 28 November 2018. Mr. Zhang is also the Assistant to General Manager of Shenwan Hongyuan Securities Co., Ltd. and General Manager of Shenwan Hongyuan Financing Services Co., Ltd. Prior to joining Shenwan Hongyuan Financing Services Co., Ltd. in November 2017, he worked for CITIC Securities Company Limited from July 2001 to October 2017 and held various positions in corporate finance division and merger and acquisition business division. He has more than 10 years' experience in corporate finance business. Mr. Zhang graduated from Sun Yat-sen University with a Ph.D. in Economics and is qualified as a sponsor representative in the PRC.

Save as disclosed above, Mr. Zhang did not hold any other directorship in listed public company in the last three years, and as at the Latest Practicable Date, he does not hold any other position with the Company or its subsidiaries and does not have any relationship with any Directors, senior management, controlling Shareholder or Substantial Shareholder of the Company.

As at the Latest Practicable Date, Mr. Zhang does not have interests in the Shares within the meaning of Part XV of the SFO. Mr. Zhang was appointed as an executive Director for a term commencing from 28 November 2018 and shall hold office until the first general meeting of the Company after his appointment and shall then be eligible for re-election; and thereafter subject to retirement by rotation and re-election in accordance with the articles of association of the Company, applicable laws and other regulatory requirements. Mr. Zhang did not receive any remuneration for acting as executive Director.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Listing Rules in connection with the re-election of Mr. Zhang as Director.

Mr. Chen Liqiang, aged 40, was appointed as an independent non-executive Director on 28 November 2018. He is currently working in a financial institution with more than 10 years of finance experience. Mr. Chen has previously worked for the Department of Public Offering Supervision of the China Securities Regulatory Commission and served as Director of the Shanghai Stock Exchange. He graduated from Peking University Law School with a Master Degree in Laws and also obtained the Chinese legal professional qualification.

Mr. Chen did not hold any other directorship in listed public company in the last three years. Mr. Chen has no financial or family relationship with any other Directors, senior management, controlling Shareholder or Substantial Shareholder of the Company.

As at the Latest Practicable Date, Mr. Chen does not have interests in the Shares within the meaning of Part XV of the SFO. Mr. Chen was appointed as an independent non-executive Director commencing from 28 November 2018 and shall hold office until the first general meeting of the Company after his appointment and shall then be eligible for re-election; and thereafter subject to retirement by rotation and re-election in accordance with the articles of association of the Company, applicable laws and other regulatory requirements. Mr. Chen is entitled to a director's fee of HK\$180,000 per annum which is determined by the Board with reference to the remuneration benchmark in the industry and the current market conditions.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Listing Rules in connection with the re-election of Mr. Chen as Director.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Shenwan Hongyuan (H.K.) Limited (the “Company”) will be held at the TALK Meeting Room on 2nd Floor, OZO Wesley Hong Kong, 22 Hennessy Road, Wanchai, Hong Kong on Thursday, 31 January 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the entering into of the subscription agreement (the “**Subscription Agreement**”, a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) dated 14 December 2018 by Shenwan Hongyuan (International) Holdings Limited (“**SWHY International**”) as subscriber and the Company as issuer in relation to the subscription by SWHY International for the 765,000,000 new ordinary shares (the “**Subscription Shares**”) of the Company, and all transactions contemplated thereunder and all other matters thereof and incidental thereto and in connection therewith, be and are hereby generally and unconditionally approved, confirmed and ratified in all respects;
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Subscription Shares, the directors (the “**Directors**” and each a “**Director**”) of the Company be and are hereby granted a specific mandate (the “**Specific Mandate**”) to allot and issue the Subscription Shares, such Specific Mandate being in additional to and not prejudicing or revoking any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company; and

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- (c) the Directors be and are hereby generally and unconditionally authorised to do all such acts or things and execute and deliver all such documents, instruments and agreements which they consider necessary, desirable or expedient to give effect to the transactions contemplated by the Subscription Agreement and the allotment and issue of the Subscription Shares, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company.”
2. “**THAT** to re-elect Mr. Zhang Jian as an executive Director and to authorise the board of Directors to fix his director’s fees.”
3. “**THAT** to re-elect Mr. Chen Liqiang as an independent non-executive Director and to authorise the board of Directors to fix his director’s fees.”

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

Hong Kong, 16 January 2019

Registered office:

Level 19,
28 Hennessy Road,
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notorially certified copy of that power or authority, at the office of the Company’s share registrar, Tricor Tengis Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at the meeting will be taken by poll.
4. As at the date of this notice, the Board comprises nine Directors, of which Mr. Zhu Minjie, Mr. Chen Xiaosheng, Mr. Zhang Jian, Mr. Guo Chun and Mr. Qiu Yizhou are the executive Directors; Mr. Zhang Lei is the non-executive Director; Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang are the independent non-executive Directors.