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

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SHENWAN HONGYUAN (H.K.) LIMITED

申萬宏源（香港）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

CONTINUING CONNECTED TRANSACTIONS

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

ALTUS CAPITAL LIMITED

A letter from the Independent Board Committee of Shenwan Hongyuan (H.K.) Limited (the “**Company**”) is set out on pages 27 and 28 of this circular. A letter from Altus Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 29 to 61 of this circular.

A notice convening an extraordinary general meeting of the Company (the “**EGM**”) to be held at the TALK Meeting Room on 2nd Floor, OZO Wesley Hong Kong, 22 Hennessy Road, Wanchai, Hong Kong, on Friday, 17 May 2019 at 10:00 a.m. is set out on pages 68 and 69 of this circular. Whether or not you are able to attend the EGM, you are advised to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the Company’s registered office at Level 19, 28 Hennessy Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjourned meeting if you so wish.



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DEFINITIONS

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

“2016 SWHYSC MOU”	the memorandum of understanding entered into between the Company and SWHYSC on 1 April 2016, details of which have been disclosed in the announcement of the Company dated 1 April 2016
“2016 SWS Research MOU”	the memorandum of understanding entered into between the Company and SWS Research on 1 April 2016, details of which have been disclosed in the announcement of the Company dated 1 April 2016
“2019 SWHYG MOU”	the memorandum of understanding entered into between SWHYG and the Company on 29 March 2019
“Annual Cap”	each of the proposed annual cap amounts of the Continuing Connected Transactions for the seven months ending 31 December 2019, each of the two years ending 31 December 2021 and the five months ending 31 May 2022, as set out in the paragraph headed “Annual Caps” in this Circular
“associates”	shall have the meaning ascribed thereto under the Listing Rules
“B-to-H Share Conversion”	conversion of B shares (shares denominated in RMB, subscribed and traded in foreign currencies on the stock exchanges in the PRC) to H shares (foreign shares registered in the PRC and traded on The Stock Exchange of Hong Kong Limited) of companies established in the PRC
“Board”	the board of Directors of the Company
“Bond Connect”	a mutual market access scheme that allows investors from Mainland China and overseas to trade in each other’s bond markets through connection between the related Mainland and Hong Kong financial infrastructure institutions
“Company”	Shenwan Hongyuan (H.K.) Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 00218)
“Connected Person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	SWHYG Transactions

DEFINITIONS

“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at the TALK Meeting Room on 2nd Floor, OZO Wesley Hong Kong, 22 Hennessy Road, Wanchai, Hong Kong on Friday, 17 May 2019 at 10:00 a.m. for the purpose of, among other things, approving the 2019 SWHYG MOU, and the transactions contemplated thereunder as well as the Annual Caps
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising the independent non-executive Directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang, formed to advise the Independent Shareholders in relation to the terms of the 2019 SWHYG MOU and the transactions contemplated thereunder, as well as the Annual Caps
“Independent Financial Adviser” or “Altus Capital”	Altus Capital Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the terms of the 2019 SWHYG MOU and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant matters at the EGM
“Latest Practicable Date”	24 April 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 Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time

DEFINITIONS

“Mutual Recognition of Hong Kong and China Fund Programs”	a mutual recognition fund platform for Hong Kong-domiciled funds to be sold in the PRC and for funds from the PRC to be sold in Hong Kong (subject to relevant authorities’ approvals)
“Offshore Investors Schemes”	the schemes under which offshore investors are permitted to invest directly in the PRC capital markets (subject to relevant authorities’ approvals)
“Onshore Investors Schemes”	the schemes under which the PRC onshore investors are permitted to invest directly in Hong Kong and overseas capital markets (subject to relevant authorities’ approvals)
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Previous Annual Caps”	the maximum aggregate annual value of various payments receivable from, or payable to the SWHYSC Group and/or SWS Research arising from the continuing connected transactions under the 2016 SWHYSC MOU and the 2016 SWS Research MOU
“QDII”	the qualified domestic institutional investors program of the PRC, a program which allows either licensed domestic institutional investors or qualified domestic investors to invest in capital markets outside the PRC (for example Hong Kong) through institutions that have obtained QDII status
“QDII 2”	the new qualified domestic institutional investors program of the PRC (subject to relevant authorities’ approvals)
“QFII”	the qualified foreign institutional investors program of the PRC, a program which allows either licensed foreign institutional investors or qualified foreign investors to buy and sell Renminbi-denominated A shares and other financial instruments permitted by the PRC regulators in the PRC’s securities and/or futures markets through institutions that have obtained QFII status
“QFII 2”	the new qualified foreign institutional investors program of the PRC (subject to relevant authorities’ approvals)
“RMB”	Renminbi, the lawful currency of the PRC

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“RQDII”	the Renminbi qualified foreign institutional investors scheme of the PRC, a program which allows either licensed domestic institutional investors or qualified domestic investors to invest in the capital markets outside the PRC through institutions that have obtained RQDII status
“RQFII”	the Renminbi qualified foreign institutional investors scheme of the PRC, a program which allows either licensed foreign institutional investors or qualified foreign investors to invest in the PRC’s securities and/or futures markets through institutions that have obtained RQFII status
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shanghai-Hong Kong Stock Connect”	is a cross-boundary investment channel that connects the Shanghai Stock Exchange and the Hong Kong Stock Exchange
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Shenzhen-Hong Kong Stock Connect”	is a cross-boundary investment channel that connects the Shenzhen Stock Exchange and the Hong Kong Stock Exchange
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“SWHYG”	Shenwan Hongyuan Group Co., Ltd, a joint stock company incorporated under the laws of the PRC, the A shares of which are listed on the Shenzhen Stock Exchange (stock code: 000166)
“SWHYG Group”	SWHYG and its subsidiaries
“SWHYG Transactions”	transactions arising from the cooperation between the SWHYG Group and the Group pursuant to the 2019 SWHYG MOU
“SWHYSC”	Shenwan Hongyuan Securities Co., Ltd.
“SWHYSC Group”	SWHYSC and its subsidiaries
“SWHYSC Transactions”	transactions arising from the cooperation between the SWHYSC Group and the Group pursuant to the 2016 SWHYSC MOU

DEFINITIONS

“SWS Research”	SWS Research Co., Ltd.
“SWS Research Transactions”	transactions arising from the cooperation between SWS Research and the Group pursuant to the 2016 SWS Research MOU
“Takeover Code”	The Code on Takeovers and Mergers
“%”	per cent



SHENWAN HONGYUAN (H.K.) LIMITED

申萬宏源（香港）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

Executive Directors:

Mr. Zhu Minjie (*Chairman*)

Mr. Chen Xiaosheng

Mr. Zhang Jian

Mr. Guo Chun (*Deputy Chairman*)

Mr. Qiu Yizhou (*Chief Executive Officer*)

Registered office:

Level 19

28 Hennessy Road

Hong Kong

Non-executive Director:

Mr. Zhang Lei

Independent non-executive Directors:

Mr. Ng Wing Hang Patrick

Mr. Kwok Lam Kwong Larry

Mr. Chen Liqiang

30 April 2019

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the announcement published by the Company on 1 April 2016 and the circular issued by the Company on 25 April 2016.

The continuing connected transactions contemplated under the 2016 SWHYSC MOU and the 2016 SWS Research MOU were approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 13 May 2016. The 2016 SWHYSC MOU and the 2016 SWS Research MOU will expire on 31 May 2019.

On 29 March 2019, the Company entered into the 2019 SWHYG MOU with SWHYG to replace the 2016 SWHYSC MOU and the 2016 SWS Research MOU. The 2019 SWHYG MOU shall be effective from 1 June 2019 upon the obtaining of the approval of the Independent Shareholders at the EGM and shall expire on 31 May 2022.

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

2. PRINCIPAL TERMS OF THE MOU

2019 SWHYG MOU

Date

29 March 2019

Parties

- (1) SWHYG
- (2) the Company

Duration

1 June 2019 to 31 May 2022

Provisions of services

The scope of services consists of the following:

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

- (i) **Brokerage services transactions:** services provided by the SWHYG Group to the Group relating to brokerage services in the PRC capital markets, which include, but not limited to, B-share trading services, potential securities trading services under the Offshore Investors Schemes (including but not limited to QFII, QFII 2, RQFII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect), and other anticipated securities trading services;
- (ii) **Investment operational supporting services transactions:** supporting services provided by the SWHYG Group to the Group in support of the Group's PRC market development and operations, the scope of which includes but not limited to the new products services launched or to be launched, such as the QFII, QFII 2, RQFII, Mutual Recognition of Hong Kong and China Fund Programs, domestic commodity futures, domestic bonds (Bond Connect), Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, which include mainly business and market consultation services and personnel training services, including but

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not limited to (i) providing information on China's macroeconomic environment and business development on a regular basis and as required, (ii) providing logistics services, and (iii) conducting market research and writing the Chinese market research reports for the Group's internal reference;

- (iii) ***Research services transactions:*** provision of various research materials to the Group by the SWHYG Group to support the Group's securities, futures, and corporate finance business, which include, but are not limited to economic analysis reports, investment strategy reports, industry sector reports, Hong Kong and PRC listed company research reports, fixed income product research reports, and derivative product research reports; and
- (iv) ***Corporate finance transactions:*** corporate finance services provided by the SWHYG Group to the Group, which include, but are not limited to, information services and client referrals in connection with corporate finance projects, merger and acquisition projects and financial advisory projects:
 - (a) ***Corporate finance transactions:*** the SWHYG Group utilises its resources of its corporate finance business to provide information to the Group, and jointly develop and cultivate listing projects.
 - (b) ***Merger and acquisition transactions:*** the SWHYG Group provides information to the Group and recommends the Group to the clients of the SWHYG Group to provide financial advisory service in connection with merger and acquisition business.
 - (c) ***Financial advisory transactions:*** the SWHYG Group provides to the Group information of financial advisory business, and introduces clients to the Group, so as to strengthen the market advantages of both parties and to provide more complete services to their clients. The financial advisory services include, but are not limited to, pre-IPO private placement and the introduction of strategic investors, as well as advice on the sale of securities and corporate restructuring.

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

- (i) ***Brokerage services transactions:*** brokerage services in Hong Kong and overseas capital markets provided by the Group to the SWHYG Group which consist of securities trading services and client referral services. The Group's business scope includes, but not limited to, brokerage services and related services that provide overseas investment product transactions or related sales product brokerage services, stocks, futures, options, bonds, etc..

The Group will become one of the designated service providers of the SWHYG Group to provide brokerage services for the overseas investment products, including but not limited to, QDII, QDII 2, RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

- (ii) ***Investment operational support and investment advisory services transactions:*** Hong Kong and overseas market supporting services provided by the Group to the SWHYG Group. Services coverage includes, but not limited to, new products or new arrangements launched or to be launched in the future, such as QDII, QDII 2, RQDII, QFII, QFII 2, Mutual Recognition of Hong Kong and China Fund Programs and overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

Services to be provided by the Group include (i) assigning relevant professional service personnel to provide consulting services to the SWHYG Group, (ii) providing product basic data such as stocks, funds, bonds, indices, financial news, market trends, policy and regulatory news express, (iii) providing reports on industry, companies, macroeconomics, investment strategies, etc., and (iv) providing special advisory services on matters related to securities investment.

The SWHYG Group can engage the Group to provide asset management services by way of managing the SWHYG Group's capital with investments. The services to be provided by the Group to the SWHYG Group include the provision of investment advisory services for offshore securities investment single orientation asset management and other asset management programs.

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- (iii) ***Corporate finance business supporting services transactions:*** corporate finance services provided by the Group to the SWHYG Group include but not limited to, information services and client referrals in connection with corporate finance projects, merger and acquisition business, and financial advisory business:
- (a) ***Corporate finance transactions:*** The Group will fully utilise its resources in its corporate finance business to provide relevant information to the SWHYG Group and jointly develop and cultivate listing projects.
 - (b) ***Merger and acquisition transactions:*** The Group provides information to the SWHYG Group and recommends the SWHYG Group to the clients of the Group to provide financial advisory services in connection with merger and acquisition business.
 - (c) ***Financial advisory transactions:*** financial advisory services provided by the Group to the SWHYG Group include but not limited to information services and client referrals in connection with introduction of private equity and strategic pre-IPO investors. The Group also provides financial advisory services to the SWHYG Group including but not limited to compliance advisory service in relation to the Listing Rules and Takeovers Code, advice on sales of securities and corporate restructuring, and other types of legal compliance advisory services.

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

Principal-to-principal transactions between the SWHYG Group and the Group, including but not limited to, trading of debt securities on the primary and secondary debt securities markets; trading of structured products including but not limited to interest rate-linked notes, OTC derivative, equity-linked notes, total return swaps. All the transactions of the aforesaid products are only conducted between SWHYSC (a subsidiary of the SWHYSC Group) and the Group.

Among all of these debt securities and structured products, it is expected that the vast majority (above 95%) of the transactions will be total return swaps transactions, which the Group will only conduct them on a back-to-back basis for the cross-border clients when there is such a request from these cross-border clients, while the transaction amount comprises significantly the gain or loss attributable to the clients of the SWHYG Group in offshore trading and a relatively smaller amount of interest income, which will be borne by such clients and generated from facilitating the transaction of total return swaps between the SWHYG Group and the Group.

Such principal-to-principal transactions are newly introduced as the Company expects that there will be new demand for such cross-border investment products transactions due to the business development of the Group. The Group's business

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relationship with the SWHYG Group will get closer due to various reasons such as (1) the increased shareholding interest in the Group directly held by the SWHYG Group, (2) the proposed listing of SWHYG on the Hong Kong Stock Exchange, and (3) the increasing demand of cross-border investment products by the customers of the SWHYG Group and the Group.

Pricing

The SWHYG Group and the Group have agreed that the fees charged to each other during the cooperation period (including the principal-to-principal transactions and corporate finance transactions) will be based on principles of fairness and reasonableness, co-development, benefit sharing, based on the nature of the work and the nature of the services and the resources used, and are determined on a case-by-case basis in accordance with the general business principles, including reference to market levels. In addition, the terms and the fees in relation to the Continuing Connected Transactions shall be no less unfavorable to the Group than the terms and the fees offered by the SWHYG Group or the Group to the independent third parties for similar comparable services, or the general terms and fees in the services or products procured from the independent third parties for similar comparable services. In no event shall the total amount received or paid in respect of the connected transactions exceed the annual cap of the connected transactions approved by the shareholders of the Company.

(1) Brokerage services transactions

With respect to securities brokerage transactions, the fees charged/chargeable or paid/payable (as the case may be) shall be determined with reference to, among other things, the fees, rates and commission for independent third parties in the market and the expected total brokerage transactions amount. For futures brokerage, the commission per lot per side varies according to (i) the type of futures contract, (ii) the stock exchange on which it is traded; and (iii) whether the trade is executed during the day or overnight in Hong Kong time. With respect to the brokerage ancillary services, for example research services, the fees charged/chargeable or paid/payable (as the case may be) shall be determined with reference to expected costs.

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

The brokerage fees to be charged by the Group to the SWHYG Group relating to the brokerage services for Hong Kong and overseas capital markets will be determined based on normal commercial principles including individual negotiation with reference to market levels and actual circumstances, and the prevailing market rates charged by the Group to its existing clients. Fees shall be based on a fixed

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percentage (0.1%-0.2%) of the gross consideration of clients' trade turnover with reference to market levels and actual circumstances, and the prevailing market rates charged by the Group to its existing clients.

(2) *Investment operational supporting services transactions*

The fees charged by the Group to the SWHYG Group relating to the supporting services for developing Hong Kong and overseas markets will be determined based on normal commercial principles (including individual negotiation with reference to market levels and actual circumstances) or the actual costs incurred in connection with provision of services. The pricing policy will be based on a fixed percentage (10%-20%) of the after-tax actual relevant commission earned by the SWHYG Group.

The fees to be charged by the SWHYG Group to the Group relating to the supporting services for PRC market will be determined based on the expected costs to be incurred by the SWHYG Group for provision of the services. The expected costs are calculated based on the estimated number of man-days/man-hours needed for the work and with reference to the SWHYG Group's employees' hourly payroll in provision of daily operations, market consulting, staff training and other services in relation to the Group's PRC market development and operations.

(3) *Investment management and advisory services transactions*

With respect to investment management and advisory services transactions, the fees charged/chargeable or paid/payable (as the case may be) shall be determined with reference to including, among other things, the fund management fees and performance fees of independent third parties in the market. The reasonableness of the fee charged for provision of such investment management and advisory services to the SWHYG Group will be verified by the responsible business department of the Group by reference to the Group's relevant department's judgment of time required for work of similar nature and the time-cost rates of the staff to be involved.

(4) *Research service transactions*

The pricing will be based on fixed monetary consideration agreed in writing for a six-month period, which the price and the terms will be determined based on arm's length basis and normal commercial principles based on the scope of work. Given the bespoke nature of the supporting services on research, it is not practicable to obtain quotations from independent third parties for comparison. The Group will conduct on an annual basis or more regularly, if required, to review the fee charged with reference to the scope of work performed.

(5) *Corporate finance transactions*

With respect to corporate finance transactions, relevant business departments shall make reference to the fees for comparable transactions of independent third parties in the market and ensure that the pricing is negotiated on an arm's length basis. The

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pricing policy will be based on a fixed percentage (8%-40%) of the revenue from third party customers for each project. Such fixed percentage will vary from one project to another depending on the amount of work performed by the SWHYG Group or the Group (as the case may be) and will be agreed in writing.

(6) Principal-to-principal transactions

For bonds on the primary debt market, they will be priced at face value. For bonds traded over-the-counter on the secondary debt market, the price and terms will be determined on the basis of arm's length negotiations and respective clients' demand for the market making business.

The structured products will be priced on normal and ordinary commercial terms and based on either (i) the complexity of the products' structure and market conditions at the time of issue and other factors; or (ii) if the products are tailor-made in accordance with the instructions of the purchasers, a cost-plus basis according to the complexity, structure, nature and volatility of the underlying assets and market conditions at the time of issue.

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

For total return swap transactions, the Group will only conduct total return swap transactions on a back-to-back basis, which transaction amount comprises significantly the gain or loss attributable to the clients of the SWHYG Group in offshore trading and a relatively smaller amount of interest income, which will be borne by such clients and generated from facilitating the transaction of total return swaps between the SWHYG Group and the Group. The Group will only charge the clients an handling fee for such transactions.

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

LETTER FROM THE BOARD

3. PREVIOUS ANNUAL CAPS

Set out below are the Previous Annual Caps:

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

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	Seven months ended	Year ended 31 December		Five months ending
	31 December 2016	2017	2018	31 May 2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(i) supporting services relating to research from SWS Research to the Group	18,482	33,900	36,274	16,172
(ii) supporting services in connection with corporate finance business from SWS Research to the Group	3,267	6,000	6,400	2,833
Annual Caps	85,000	155,920	166,816	74,351

4. HISTORICAL TRANSACTION AMOUNTS

Set out below is a summary of the Group's historical transaction amounts of the transactions under the 2016 SWHYSC MOU and the 2016 SWS Research MOU for the seven months ended 31 December 2016, and each of the two years ended 31 December 2018:

	Seven months ended	Year ended 31 December	
	31 December 2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)
Historical transaction amounts for services relating to the 2016 SWHYSC Group Transactions comprising:	11,111	18,701	9,434
(i) brokerage services relating to the PRC capital markets from the SWHYSC Group to the Group	756	896	718
(ii) supporting services for the PRC market from the SWHYSC Group to the Group	1,000	4,078	3,343
(iii) brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYSC Group	—	—	—

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	Seven months ended 31 December 2016 <i>HK\$'000</i> (Audited)	Year ended 31 December 2017 <i>HK\$'000</i> (Audited)	2018 <i>HK\$'000</i> (Audited)
(iv) supporting services relating to Hong Kong and overseas markets from the Group to the SWHYSC Group	8,220	12,950	13,948
(v) supporting services in connection with corporate finance business from the Group to the SWHYSC Group	1,135	—	1,425
(vi) supporting services in connection with corporate finance business from the SWHYG Group to the Group	—	777	—
Historical transaction amounts for services relating to the SWS Research Transactions comprising:	2,405	7,300	3,500
(i) supporting services relating to research from SWS Research to the Group	2,405	7,300	3,500
(ii) supporting services in connection with corporate finance business from SWS Research to the Group	—	—	—
Total historical transaction amounts	13,516	26,001	22,934

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5. ANNUAL CAPS

Set out below is a summary of the Annual Caps in respect of the proposed Continuing Connected Transactions for the seven months ending 31 December 2019, each of the two years ending 31 December 2021, and the five months ending 31 May 2022:

	Seven months ending 31 December 2019 HK\$'000	Year ending 31 December 2020 HK\$'000	2021 HK\$'000	Five months ending 31 May 2022 HK\$'000
Annual Caps for services relating to the SWHYG Transactions comprising: Services provided by the SWHYG Group to the Group	70,273	131,874	144,381	65,874
(i) brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	2,102	3,964	4,360	1,998
(ii) supporting services for the PRC market from the SWHYG Group to the Group	9,689	18,271	20,098	9,212
(iii) supporting services relating to research from the SWHYG Group to the Group	13,565	25,579	28,137	12,896
(iv) supporting services in connection with corporate finance business from the SWHYG Group to the Group	44,917	84,060	91,786	41,768
Services provided by the Group to the SWHYG Group	1,242,561	4,156,459	8,207,430	6,791,176
(i) brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	2,907	5,481	6,029	2,763
(ii) supporting services relating to Hong Kong and overseas capital markets and investment advisory services from the Group to the SWHYG Group	53,322	100,550	110,605	50,694
(iii) supporting services in connection with corporate finance business from the Group to the SWHYG Group	5,928	11,178	12,296	5,636
Principal-to-principal trading of financial products	1,180,404	4,039,250	8,078,500	6,732,083
Annual Caps	1,312,834	4,288,333	8,351,811	6,857,050

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

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

The SWHYG Group's brokerage services relating to the PRC capital markets mainly represents the brokerage services for securities trading related to the B-share and the Offshore Investors Schemes (including but not limited to QFII, QFII 2 and RQFII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect). The Annual Caps in respect of the brokerage services provided by the SWHYG Group relating to the PRC market are determined with reference to (i) the historical transaction amounts of the B-share brokerage services provided by the SWHYG Group to the Group and the potential increase in the demand for brokerage services due to B-to-H Share Conversion; (ii) the potential increase in demand for brokerage services to be provided by the SWHYG Group to the Group upon the anticipated introduction of or increase of limits of some Offshore Investors Schemes; and (iii) estimated annual growth rate of 10% in service fees taking into account the anticipated growth of the PRC capital markets.

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

With the development of the PRC economy, many measures allowing overseas investors to invest in the PRC capital markets have been launched or fermenting, including but not limited to QFII, QFII 2, RQFII, the Mutual Recognition of Hong Kong and China Fund Programs, domestic commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. In addition, in view of the fact that the central government of the PRC is developing a cross-border special financial services region in Qianhai of Shenzhen, the Group believes that there will be more opportunities allowing investors in the Mainland and Hong Kong to invest directly in their respective markets. The Directors consider it beneficial to market development, cost effective and less time consuming to engage the SWHYG Group in the provision of certain supporting services (which include mainly client referrals, business and market consultation services and personnel training services). The Annual Caps in respect of the supporting services are in terms of the service fees and are determined based on (i) the prevailing market rates and the estimated costs to be incurred in connection with provision of the supporting services; (ii) the estimated annual growth rate of 10% in service fees taking into account the expected rise in demand for such services from the Group and the increase in costs due to inflation; (iii) the increased demand of the supporting services for the PRC market due to the increasing market demand and the enhanced business cooperation with the SWHYG Group; and (iv) the historical Hong Kong securities brokerage commission income of the Group of approximately HK\$151.0 million for the year ended 31 December 2018 and it is expected that the respective payment for the supporting services for the PRC market will be around 10% of the securities brokerage commission income.

LETTER FROM THE BOARD

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

The brokerage services for Hong Kong and overseas capital markets provided by the Group include but not limited to the securities trading services resulting from the launch and the anticipated launch of the Onshore Investors Scheme (including but not limited to QDII, QDII 2, RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect). The Annual Caps in respect of such brokerage services are determined with reference to (i) the potential increase in demand for the brokerage services to be provided by the Group to the SWHYG Group and its associates for the growing offshore investment business in connection with QDII, QDII 2 and RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect Scheme; and (ii) the estimated annual growth rate of approximately 10% in service fees taking into account the anticipated growth in demand for such services.

Supporting services relating to Hong Kong and overseas markets and investment advisory services from the Group to the SWHYG Group

With the development of the PRC economy, many measures allowing overseas investors to invest in the PRC capital markets and the PRC investors to invest in overseas capital markets have been launched or fermenting, including but not limited to QDII, QDII 2, RQDII, QFII, QFII 2, the Mutual Recognition of Hong Kong and China Fund Programs, overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Regardless of whether the relevant measures are in the planning or implementation stage, the Group will provide supporting services to the SWHYG Group in areas such as client referrals, business and market consultation services and personnel training services, resulting in growth of the relevant service fees.

The Annual Caps in respect of the Group's supporting services are in terms of the service fees and are determined based on (i) the potential increase in number of customers participating in schemes such as QDII, QDII 2, RQDII, QFII, QFII 2, the Mutual Recognition of Hong Kong and China Fund Programs, overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect Scheme and Shenzhen-Hong Kong Stock Connect and the potential growth in the corresponding commission income; (ii) the prevailing market rates and the estimated costs to be incurred in connection with provision of the supporting services; (iii) the estimated annual growth rate of 10% in service fees taking into account the expected rise in demand for such services from the Group and the increase in costs due to inflation. The Group will also provide asset management service to the SWHYG Group to manage its offshore capital. The expected amount of the service fees to be collected by the Group and its Annual Cap will be based on the expected amount of the capital of the SWHYG Group involved in the asset management service to be provided by the Group. Due to the enhanced market presence of the SWHYG Group in Hong Kong and the closer relationship between the SWHYG Group and the Group, the Group will be engaged to provide asset management service to manage the SWHYG Group's offshore capital for investment to utilize the expertise and experience in asset management of the Group. Such asset management arrangement is a

LETTER FROM THE BOARD

new arrangement and the fees chargeable for asset management services by the Group to the SWHYG Group shall be determined with reference to the expected assets under management of approximately HK\$5.5 billion and the average asset management fee of 1% and the possible performance fee. Taking into account this new asset management fee, the Annual Caps for supporting services for the Hong Kong and overseas market are significantly higher than the previous caps.

Supporting services in connection with corporate finance business between the Group and the SWHYG Group

In view of the increase in cross-border business in relation to securities listings, the Group and the SWHYG Group could broaden cooperation in respect of corporate finance business, the scope of which includes, but not limited to, provision of information services and client referrals. The Annual Caps in respect of the supporting services for corporate finance business are determined with reference to (i) the estimated level of services to be provided by each of the Group and the SWHYG Group; and (ii) the estimated annual growth rate of approximately 10% in service fees taking into account the fund raising amounts of the PRC companies listed in Hong Kong and the PRC markets in recent years as well as the anticipated growth of the respective markets.

Supporting services relating to research from the SWHYG Group to the Group

In view of the increasing number of dual-listed PRC companies listed in both the Hong Kong and the PRC markets, and the growing interest of the Group's foreign clients in investing in the PRC related securities, the Directors expect the demand for research materials covering both Hong Kong and PRC markets will grow continuously. In addition, as the Group is actively developing its business with institutional investors, it is anticipated that more overseas institutional clients will be attracted to invest in the Hong Kong stock market, which in turn will lead to a rise in demand for research materials covering the PRC companies. Headquartered in the PRC, the SWHYG Group has its own securities research division principally engaged in securities research business, primarily covering the PRC listed companies. Given the significant and strong research capability of the SWHYG Group, the Directors consider that the Group's service level can be improved through utilizing the SWHYG Group's resources and therefore it is appropriate to engage it to provide such products and services. The Annual Caps in respect of the SWHYG Group's supporting services for research are determined with reference to (i) the historical transaction amounts of the relevant transactions; and (ii) the estimated annual growth rate of approximately 10% in service fees taking into account the expected rise in demand for such services from the Group and the increase in costs due to inflation.

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

In view of the increasing demand for structured products and hedging from the market and customers, the Annual Caps for the transactions between the Group and the SWHYG Group are determined with reference to the following factors:

LETTER FROM THE BOARD

- (i) the expected transaction value of debt securities traded between the Group and the SWHYG Group which includes newly issued bonds on the primary market priced on their face value and bonds traded on the secondary market on price agreed after arm's length negotiation. Given that there was no historical turnover for debt securities trading between the Group and the SWHYG Group, the Company expects that the total transaction value of debt securities in the period covered by the 2019 SWHYG MOU will be minimal;
- (ii) the expected transaction value of structured products traded between the Group and the SWHYG Group comprises the notional amount of the structured products and the revenue generated from them. Given that there was no historical transaction amount of structured products between the Group and the SWHYG Group, the Company expects that the expected transaction amount of structured products in the period covered by the 2019 SWHYG MOU will be minimal; and
- (iii) the settlement amount of the total return swap which comprises significantly the gain or loss attributable to the clients of the SWHYG Group and relatively smaller amount of interest income to be borne by such clients, all of which will be passed between the Group's clients and the SWHYG Group through the Group as an agent on back-to-back basis. Thus, there will be no profit and loss impact on the Group's income statement, and the total return swap will be an off-balance sheet item. It is expected that such amount will be growing 100% annually.

The majority proportion of the Annual Caps of the principal-to-principal trading category is composed of the estimated amount of the gain or loss attributable to the clients of the SWHYG Group in offshore trading because such gain or loss amount is estimated to be large in terms of monetary value, taking into account the large expected trading volume attributable to the clients of the SWHYG Group and its expected high growth rate of 100% due to the increased market demand, the fact that there are only a few qualified financial institutions in the PRC engaging in the business of cross-border structured products where the SWHYG Group is one of the qualified institutions and the enhanced cooperation between the Group and the SWHYG Group.

7. INTERNAL CONTROL

The terms of the 2019 SWHYG MOU were arrived at after arm's length negotiations between the Company and SWHYG. In order to ensure the pricing of each type of transactions is on normal commercial terms, the Company has established a series of internal control procedures, including:

- (1) On an annual basis or more regularly as necessary, the responsible business department of the Group will procure other quotations for similar transaction values from independent brokers and services providers in the market for comparisons of the brokerage rates charged, the services fees of the supporting services, the service fees of the corporate finance services, the services fees of the asset management services and the price of the primary debt, secondary debt and structured products

LETTER FROM THE BOARD

involved in the principal-to-principal transactions, to act as the basis to review the services and products sourced from the SWHYG Group and/or the services and products provided to the SWHYG Group. Before the Group enters into any of the transactions, the responsible business department must ensure that (i) the price of the transaction is the same as, or within the price range of, comparable transactions carried out by independent third parties in the market (where such transactions are available as references; for tailor-made structured products which will be priced on cost-plus basis, the responsible business department of the Group will review the premium in the similar products offered to the independent third parties as reference) and the pricing policy; and (ii) if there is any change to the Group's pricing policy or mechanism, that the revised pricing policy or mechanism is in line with market practice.

- (2) As to the brokerage services, according to the Group's internal policy, on an annual basis or more regularly as necessary, the business department of the Group will compare the brokerage rates charged against at least five other independent third party customers which had transacted with the Group for similar transaction values for comparisons of the brokerage rates.
- (3) As to the supporting services and investment and financial advisory services, according to the Group's internal policy, the reasonableness of the fee charged for provision of such supporting services to the SWHYG Group will be verified by the business department of the Group by reference to the Group's relevant department's judgement of time required for work of similar nature. The Group will also cross check the time-cost rates against the Group's relevant staff's salary rates to ascertain their reasonableness.
- (4) As to the corporate finance services and research services, according to the Group's internal policy, the responsible business department of the Group will conduct review on an annual basis or more regularly if required to compare the percentage of fee charged with reference to the scope of work performed.
- (5) As to the total return swaps transactions, the transaction amount will be fully based on the gain and/or loss realised by the clients of the SWHYG Group and the Group only transfers/collects the amount to/from the SWHYG Group on dollar to dollar basis. The responsible business department will monitor the transactions regularly and ensure the transactions are in line with this principle. Therefore, the Directors consider that the Group has no (or minimal, if any) risk exposure in the total return swaps transactions.
- (6) The reasonableness of the estimated man-days/man-hours for supporting services will be verified by the Group's independent departments (e.g. internal audit, finance department).
- (7) On a yearly basis, the auditors submit a letter to the Board confirming that the Continuing Connected Transactions:
 - (i) have received the approval of the listed issuer's board of directors;

LETTER FROM THE BOARD

- (ii) are in accordance with the pricing policies of the listed issuer if the transactions involve provision of goods or services by the listed issuer;
- (iii) have been entered into in accordance with the relevant agreement governing the transactions; and
- (iv) have not exceeded the cap disclosed in previous announcement(s).

The independent non-executive Directors will conduct an annual review with respect to the continuing connected transactions of the Group throughout the preceding financial year and confirm on the transactional amounts and terms of the transactions in the annual report of the Company.

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

8. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors believe that the entering into of the 2019 SWHYG MOU will serve as a platform for more extensive cooperation between the Group and the SWHYG Group. The SWHYG Group and the Group would benefit through efficient use of their respective clientele and resources, and a synergy effect is expected to be achieved as a result of their cooperation. The Directors also believe that the Group's service quality will be enhanced through the provision of cross-border financial intermediary services. Therefore, the Directors consider that entering into the 2019 SWHYG MOU is in the interests of the Company and the Shareholders as a whole.

The terms of the 2019 SWHYG MOU were arrived at after arm's length negotiations between the Company and SWHYG. The Directors consider that the SWHYG Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

9. INFORMATION ON THE GROUP AND THE SWHYG GROUP

The Group is principally engaged in the provision of securities broking services, securities financing services, corporate finance services, securities research services and asset management services.

LETTER FROM THE BOARD

The SWHYG Group is an investment banking group in the PRC. The A shares of SWHYG are listed on the Shenzhen Stock Exchange (stock code: 000166). The SWHYG Group is principally engaged in the provision of comprehensive financial services, including enterprise finance, personal finance, institutional services and trading, as well as investment management.

On 12 April 2019, SWHYG issued the prospectus in connection with the proposed H share offering. Pursuant to the prospectus, dealings in the H Shares on The Stock Exchange of Hong Kong Limited are expected to commence on 26 April 2019 subject to the approval of the Listing Committee of The Stock Exchange of Hong Kong Limited for the listing of and permission to deal in the H Shares on The Stock Exchange of Hong Kong Limited.

10. LISTING RULES AND IMPLICATIONS

As SWHYG is deemed to be beneficially interested in approximately 75.0% of the issued share capital of the Company and a substantial shareholder of the Company, SWHYG is a connected person of the Company under the Listing Rules. As such, the SWHYG Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since each of the assets ratio, the revenue ratio and the consideration ratio (as defined under Rule 14.07 of the Listing Rules) with reference to the largest Annual Cap in respect of the SWHYG Transactions in aggregate exceeds 5% and the amount of the largest Annual Cap is more than HK\$10 million, the 2019 SWHYG MOU is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A Board meeting held on 25 March 2019 had approved, among other things, the 2019 SWHYG MOU. Among all the directors attending the Board meeting, Mr. Zhu Minjie, Mr. Guo Chun and Mr. Qiu Yizhou were considered to be materially interested in the SWHYG Transactions and they voluntarily abstained from voting on the relevant Board resolutions approving the 2019 SWHYG MOU and related matters.

11. GENERAL

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

The Company proposes to seek approval from the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps at the EGM. Voting at the EGM will be conducted by poll. SWHYG and its associates who in aggregate control or are entitled to exercise control over the voting right in respect of 1,170,808,569 Shares, representing approximately 75.0% of total Shares in issue as at the Latest Practicable Date, shall abstain from voting at the EGM in respect of the Continuing Connected Transactions as well as the Annual Caps.

LETTER FROM THE BOARD

The Independent Board Committee comprising all of the three (3) independent non-executive Directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang has been formed to advise the Independent Shareholders as to whether the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and whether the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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

12. THE EGM AND THE NOTICE

A notice convening the EGM to be held at the TALK Meeting Room on 2nd Floor, OZO Wesley Hong Kong, 22 Hennessy Road, Wanchai, Hong Kong, on Friday, 17 May 2019 at 10:00 a.m. is set out on pages 68 and 69 of this circular.

A proxy form for use at the EGM is enclosed herewith and is also published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.swhyhk.com>). Whether or not you are able to attend the EGM, you are advised to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the Company's registered office at Level 19, 28 Hennessy Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjourned meeting if you so wish.

13. VOTING BY POLL

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

14. RECOMMENDATION

You are advised to read carefully the letter from the Independent Board Committee set out on pages 27 and 28 of this circular. The Independent Board Committee, having taken into account the advice of Altus Capital, the text of which is set out on pages 29 to 61 of this circular, considers that (i) the Continuing Connected Transactions contemplated under the 2019 SWHYG MOU fall in the ordinary and usual course of business of the Group; (ii) the 2019 SWHYG MOU is in the interests of the Group and the Shareholders as a whole; (iii) the terms of the 2019 SWHYG MOU are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; and (iv) the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, the

LETTER FROM THE BOARD

Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2019 SWHYG MOU and the transactions contemplated thereunder as well as the Annual Caps.

15. ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Shenwan Hongyuan (H.K.) Limited
Qiu Yizhou
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



SHENWAN HONGYUAN (H.K.) LIMITED

申萬宏源（香港）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

30 April 2019

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

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 30 April 2019 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the 2019 SWHYG MOU, the terms of the transactions contemplated thereunder as well as the Annual Caps and to advise the Independent Shareholders whether, in our opinion, the terms of the 2019 SWHYG MOU, the terms of the transactions contemplated thereunder as well as the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 29 to 61 of the Circular.

Having considered the advice given by, and the principal factors and reasons taken into consideration by Altus Capital in arriving at its advice, we consider that (i) the Continuing Connected Transactions contemplated under the 2019 SWHYG MOU fall in the ordinary and usual course of business of the Group; (ii) the 2019 SWHYG MOU is in the interests of the Company and the Shareholders as a whole; (iii) the terms of the 2019 SWHYG MOU are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; and (iv) the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the Independent

LETTER FROM THE INDEPENDENT BOARD COMMITTEE
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Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2019 SWHYG MOU and the transactions contemplated thereunder as well as the Annual Caps.

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

Ng Wing Hang Patrick
*Independent non-executive
Director*

Kwok Lam Kwong Larry
*Independent non-executive
Director*

Chen Liqiang
*Independent non-executive
Director*

LETTER FROM ALTUS CAPITAL LIMITED

The following is the text of a letter of advice from, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions as contemplated under the 2019 SWHYG MOU and the Annual Caps related thereto, which has been prepared for the purpose of incorporation in this circular.

ALTUS

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

30 April 2019

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions as contemplated under the 2019 SWHYG MOU and the Annual Caps related thereto, details of which are set out in the “Letter from the Board” contained in the circular dated 30 April 2019 (the “**Circular**”) to the Shareholders, of which this letter (this “**Letter**”) forms part. Terms used in this Letter shall have the same meaning as those defined in the Circular unless the context requires otherwise.

On 29 March 2019, the Company entered into the 2019 SWHYG MOU with SWHYG Group to replace the 2016 SWHYSC MOU and the 2016 SWS Research MOU. The 2019 SWHYG MOU shall be effective from 1 June 2019 upon the obtaining of the approval of the Independent Shareholders at the EGM and shall expire on 31 May 2022.

LISTING RULES IMPLICATION

As SWHYG is deemed to be beneficially interested in approximately 75.0% of the issued share capital of the Company and is a substantial shareholder of the Company, SWHYG is a connected person of the Company under the Listing Rules. As such, the SWHYG Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since each of the revenue ratio, the asset ratio and the consideration ratio (as defined under Rule 14.07 of the Listing Rules) with reference to the largest Annual Cap in respect of the SWHYG Transactions exceeds 5% and the amount of the largest Annual Cap is more than HK\$10 million, the 2019 SWHYG MOU is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises all three independent non-executive Directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang, has been established to consider and to give advice and recommendation to the Independent Shareholders on (i) whether the terms of the Continuing Connected Transactions contemplated under the 2019 SWHYG MOU fall in the ordinary and usual course of business of the Group; (ii) whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; (iii) whether the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; (iv) whether the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned; and (v) how to vote at the EGM, taking into account the recommendation of the independent financial adviser.

INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Continuing Connected Transactions contemplated under the 2019 SWHYG MOU fall in the ordinary and usual course of business of the Group; (ii) whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; (iii) whether the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; (iv) whether the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned and (v) how the Independent Shareholders should vote in respect of the resolution relating thereto to be proposed at the EGM.

LETTER FROM ALTUS CAPITAL LIMITED

We have previously acted as the independent financial adviser to the Company with regard to certain connected transaction. Details of such transaction were set out in a circular of the Company dated 8 March 2019. Save for the transaction described therein, we have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years from the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Continuing Connected Transactions contemplated under the 2019 SWHYG MOU is at market level and not conditional upon successful passing of the resolutions to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling Shareholder(s) or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst others, (i) the 2016 SWHYSC MOU and 2016 SWS Research MOU; (ii) the 2019 SWHYG MOU; (iii) the annual report for the year ended 31 December 2017 (the “**2017 Annual Report**”); (iv) annual results announcement for the year ended 31 December 2018 (the “**2018 Annual Results Announcement**”); and (v) other information as set out in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the Latest Practical Date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the despatch of the Circular.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

1.1 The Group

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

1.2 Financial results of the Group

Below is a summary of selected information of the operating results of the Group for the two years ended 31 December 2017 and 2018 as extracted from the Company's 2018 Annual Results Announcement.

	For the year ended	
	31 December	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	545,964	519,619
Other gains, net	10,779	2,173
— Segment revenue and other gains from external customers:		
— brokerage business	248,080	225,757
— financing and loans business	174,036	186,628
— corporate finance business	98,694	76,146
— investment business	15,623	(9,757)
— asset management business	9,531	40,845
— other businesses	10,779	2,173
Commission expenses	(113,904)	(89,909)
Employee benefit expenses	(191,297)	(193,710)
Other expenses, net	(115,899)	(116,431)
Profit before tax	116,217	101,632
Profit for the year	104,071	96,226

Source: 2018 Annual Results Announcement

The Group's revenue for the year ended 31 December 2018 represented a decrease of approximately 4.8% from the previous year, primarily due to the revenue drop in the brokerage business and the corporate finance business of approximately 9.0% and 22.8% respectively, partially offset by the increase in asset management business of approximately 328.5% to approximately HK\$40.8 million in 2018.

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The slight decline in the Group's brokerage business during 2018 was due to stagnant market condition of the Hong Kong stock market during the year, whilst the drop in corporate finance business was mainly due to the general reduction in business volume. The numbers of sponsoring and lead placing agent, underwriting participation placement and financial advisory projects completed in 2018 are 1, 12, 12 respectively, as compared to 2, 9, 18 in 2017 respectively. The increase in the Group's size of the total asset under management from approximately HK\$4.4 billion at the end of 2017 to approximately HK\$6.9 billion at the end of 2018 contributed the significant rise in revenue from asset management business.

In tandem with the decrease in revenue, the commission expenses incurred by the Group during 2018 amounted to approximately HK\$89.9 million, representing a drop of approximately 21.1% as compared to the approximately HK\$113.9 million incurred during the previous year. Employee benefit expenses and other expenses, which predominantly consisted of salary and staff-related cost, remained relatively stable at approximately HK\$193.7 million during the year.

As a result of the above, the Group recorded a decrease in profit for the year in 2018 of approximately 7.5% as compared to the previous year.

Having considered that the total revenue derived from brokerage, corporate finance and asset management businesses represented 65.3% and 66.0% of the total revenue of the Group for each of the year ended 31 December 2017 and 2018 respectively, we are of the view that the entering into of the 2019 SWHYG MOU is in the ordinary and usual course of business of the Group.

Outlook

The Company reported in the 2018 Annual Results Announcement that trade tensions between the US and China, uncertainties surrounding Brexit, slowing economic growth in a number of key markets and political fragility in pockets around the world have impacted on its markets. The Company continued that the resulting volatility could potentially lead to a further deterioration in investor sentiment and, ultimately, a global economic slowdown.

We noted in the 2018 Annual Results Announcement that the Directors remain cautiously optimistic about the Hong Kong market in 2019. The current valuation of Hong Kong market as a whole is still at a relatively low level and stock positions of global institutional investors of Chinese assets, such as Hong Kong stocks and China stocks (A-shares), are also at low levels. The Directors believe that proactive fiscal policies of the PRC government will benefit the infrastructure-related segments. Implementing policies including tax and fee reduction will also create favorable conditions for consumer sector, in particular to service industry which offers a wide range of job opportunities.

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Development of Hong Kong and PRC Financial Markets

QFII and RQFII

QFII was introduced in 2002, allowing licensed foreign investors to buy and sell RMB-denominated A-shares on the Shanghai and Shenzhen Stock Exchanges, which were previously closed off to foreign investors. RQFII was introduced in 2011, allowing foreign institutional investors with a presence in Hong Kong to repatriate offshore Renminbi by investment in the PRC bond and equity markets, including the inter-bank bond market. The Group has been granted with a QFII quota of approximately US\$200 million in April 2015 and a RQFII quota of approximately RMB2.0 billion in September 2017.

QDII

QDII was introduced in 2006, allowing domestic financial institutions to invest in offshore markets, subject to approval by the China Securities Regulatory Commission (“CSRC”). The SWHYG Group was granted with a QDII quota of approximately US\$400 million in January 2019.

The Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect

The Shanghai-Hong Kong Stock Connect was launched in November 2014, and the Shenzhen-Hong Kong Stock Connect was launched in December 2016. Both stock connect schemes aim to provide mutual stock market connectivity between PRC and Hong Kong registered investors, which may increase the potential for domestic Chinese assets and securities to become a more common component of international institutional investor portfolios, benefiting the Group’s long term business development.

Mutual Recognition of Hong Kong and China Fund Programs

The Mainland-Hong Kong Mutual Recognition of Funds Initiative was launched in July 2015, a new regulatory scheme enhances the cross-border mobility of mutual funds between Hong Kong and the PRC under the agreement between Hong Kong’s Securities and Futures Commission (“SFC”) and CSRC. The Management expects that there are positive impact on the growth of the Group’s asset management business in the long term, given that the scheme will open access to the PRC market potential investors including the growing middle class and high net worth investors for their fund managers.

As disclosed in the 2018 annual report of the Hong Kong Exchanges and Clearing Limited, both Northbound and Southbound Trading in Stock Connect demonstrated strong growth in 2018. Total Northbound turnover reached approximately RMB4,674.0 billion, an increase of approximately 106.0% and Southbound Turnover reached approximately HK\$2,834 billion, representing an increase of approximately 25.0% from 2017. As of the end of 2018, net capital

inflow into the Mainland and into Hong Kong reached approximately RMB641.7 billion and HK\$808.9 billion respectively since launch. At the same time, market participation in Bond Connect has been growing steadily, with an average daily turnover value reaching approximately RMB3.6 billion in 2018, while overall foreign holdings in China's interbank bond market reached approximately RMB1,730 billion by 31 December 2018, more than double the size from the launch of Bond Connect in July 2017. The Directors are of the view that the Group is well-positioned to capture the opportunities arising from the Hong Kong stock and bond markets.

2. Background information of SWHYG

SWHYG is principally engaged in provision of comprehensive financial services, including enterprise finance, personal finance, institutional services and trading, as well as investment management in the PRC.

3. Background to the Continuing Connected Transactions contemplated under the 2019 SWHYG MOU

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

On 1 April 2016, the Company entered into (i) the 2016 SWHYSC MOU with SWHYSC Group; and (ii) the 2016 SWS Research MOU with SWS Research (together, the “**Previous MOUs**”), setting out the terms and conditions for the transactions relating to the provision of the above services among them. As the existing annual caps under the Previous MOUs for the Continuing Connected Transactions will expire on 31 May 2019, the 2019 SWHYG MOU had been entered into on 29 March 2019 with a view to carrying out the Continuing Connected Transactions from 1 June 2019 to 31 May 2022.

The 2019 SWHYG MOU is a framework agreement which provides the principles, mechanism and terms and conditions for the transactions which they govern.

The 2019 SWHYG MOU governs the following transactions:

Services provided by the SWHYG Group to the Group

- (i) Brokerage services transactions;
- (ii) Investment operational supporting services transactions;
- (iii) Research services transactions;
- (iv) Corporate finance transactions;

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Services provided by the Group to the SWHYG Group

- (i) Brokerage services transactions;
- (ii) Investment operational support and investment advisory services transactions;
- (iii) Corporate finance business supporting services transactions; and

Principal-to-principal transactions of investment products (between SWHYSC and the Group)

We noted that the scope of the above transactions under the 2019 SWHYG MOU, as compared to the 2016 SWHYSC MOU and the 2016 SWS Research MOU, has been expanded to encompass the principal-to-principal transactions of investment products. Nevertheless, the scope of transactions under the 2019 SWHYG MOU is still within the principal businesses of the Group and will be conducted in its ordinary and usual course of business. Further details of these services, including the pricing terms under the 2019 SWHYG MOU, can be found in the section below headed “4. Services and terms of the Continuing Connected Transactions” of this Letter.

4. Services and terms of the Continuing Connected Transactions

The following sets out details of the nature and pricing of the different types of transactions which may be entered into between the Group and connected parties pursuant to the 2019 SWHYG MOU.

4.1 Services provided by the SWHYG Group to the Group

4.1.1 Brokerage services transactions

Nature of the services

SWHYG Group provides brokerage services in the PRC capital markets to the Group, including, but not limited to B-share trading services, potential securities trading services under the Offshore Investors Schemes (including but not limited to QFII, QFII2, RQFII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect).

Pricing of the transactions

SWHYG Group charges its brokerage fees based on a certain percentage of the transaction amount. According to the “Letter from the Board” of this Circular, the SWHYG Group charges the Group at a fixed percentage of 0.05% to 0.10% of the gross consideration of clients’ trade turnover, which is determined based on normal commercial principles including individual negotiations with reference to the prevailing market rates and actual circumstances, and the most favourable rates charged by the SWHYG Group to its existing clients.

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We have reviewed the quotations obtained by the Company from independent brokers in relation to securities brokerage services in the PRC markets. We noted that the brokerage commission rate offered by the SWHYG Group to the Group is equal to, or lower than, those offered by the independent brokers. Having considered this pricing policy, we are satisfied that it is a fair and reasonable basis to price these transactions.

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

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

4.1.2 Investment operational supporting services transactions

Nature of the services

The SWHYG Group provides supporting services to the Group in support of the Group's PRC market development and operations including, but not limited to new products and services launched or to be launched, such as the QFII, QFII2, RQFII, Mutual Recognition of Hong Kong and China Fund Programs, overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. These services mainly relate to business and market consultation and personnel training, including but not limited to (i) providing information on China's macroeconomic environment and business development on a regular basis and as required, (ii) providing logistics services, and (iii) conducting market research and writing of Chinese market research reports for the Group's internal reference.

Pricing of the transactions

The Management explained that the fees charged by the SWHYG Group to the Group relating to the supporting services will be determined based on the expected costs to be incurred by the SWHYG Group in connection with the provision of the services. The expected costs are calculated based on the estimated number of hours needed for the work and with reference to SWHYG Group's employees' salary in providing daily operations, market consulting, staff training and other services in relation to the Group's PRC market development and operations. We have reviewed the invoices from the SWHYSC Group in relation to the supporting services provided by the SWHYSC Group to the Group. We noted that the pricing basis provided by the SWHYSC Group, including the estimated man-days/man-hours and the average hourly payroll in calculating the expected costs of services provided by the SWHYSC Group to

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the Group are reasonable by cross checking with the Group's own time-cost rates. Having considered this pricing policy, we are satisfied that it is a fair and reasonable basis to price these transactions.

According to the Group's internal policy, the reasonableness of the estimated man-days/man-hours to be incurred by the SWHYG Group for providing these services will be verified by the Group by reference to the Group's relevant department's judgement of time required for work of similar nature. The Group will also cross check the time-cost rates of the SWHYG Group against the Group's own time-cost rates to ascertain their reasonableness.

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

4.1.3 Research services transactions

Nature of the services

The SWHYG Group provides various research materials to the Group to support the Group's securities, futures, and corporate finance business, which includes, but not limited to, economic analysis reports, investment strategy reports, industry sector reports, Hong Kong and the PRC listed company research reports, fixed income product research reports, and derivative product research reports, as well as supporting services for investor meetings organised by the Group.

Pricing of the transactions

According to the terms of the 2019 SWHYG MOU, the fees charged by the SWHYG Group to the Group for the research materials and supporting services relating to research will be determined based on normal commercial principles (including market conventions and actual circumstances). The pricing will be based on fixed monetary consideration for a six-month period which will be agreed in writing. We have reviewed the agreements signed between SWS Research and the Group in relation to the research services provided by SWS Research under the 2016 SWS Research MOU. We have also considered the scope and nature of services to be provided and the Group's client base which potentially will require for such research services; as well as the resources needed by SWS Research in providing such services to the Group. We noted that the pricing was determined based on arm's length basis and normal commercial principles. Having considered this pricing policy, we are satisfied that it is a fair and reasonable basis to price these transactions.

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

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

4.1.4 Corporate finance transactions

Nature of the services

The SWHYG Group provides corporate finance services to the Group, including, but not limited to, information services and client referrals in connection with corporate finance projects, listing projects, merger and acquisition projects and financial advisory projects. The financial advisory services include, but are not limited to, pre-IPO private placement and the introduction of strategic investors, as well as advice on the sale of securities and corporate restructuring.

Pricing of the transactions

According to the terms of the 2019 SWHYG MOU, the fees charged by the SWHYG Group to the Group relating to the provision of corporate finance services will be determined based on normal commercial principles (including with reference to fees for comparable transactions of independent third parties in the market) and will be negotiated on an arm's length basis. The pricing policy will be based on a percentage of the revenue received from third party customers for each related project. Such fixed percentage which in the past had ranged from 8% to 40%, will vary from one project to another depending on the nature and amount of work performed by the SWHYG Group and will be agreed in writing. We have reviewed the invoices from the SWHYSC Group in relation to the corporate finance services provided by the SWHYSC Group to the Group under the 2016 SWHYSC MOU. We noted that the revenue sharing arrangement was in line with the pricing policy as set out above and the pricing was determined based on arm's length basis and normal commercial principles. Having considered this pricing policy, we are satisfied that it is a fair and reasonable basis to price these transactions.

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

Given the project-based nature of the corporate finance supporting services and the fees will be compared to similar transactions of independent third parties of similar nature, we are of the view that the review mechanism as described above is a reasonable approach to ensure fairness of pricing.

4.2 Services provided by the Group to the SWHYG Group

4.2.1 Brokerage services transactions

Nature of the service

Brokerage services transactions refer to brokerage services in Hong Kong and overseas capital markets provided by the Group to the SWHYG Group, which consist of securities trading services and client referral services for products including, but not limited to, the Onshore Investors Schemes, equity, forwards, options, bonds and other related products.

The Group is one of the designated service providers of the SWHYG Group to provide brokerage services for overseas investment products (including but not limited to QDII, QDII2, RQDII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect).

Pricing of the transactions

The Group charges its brokerage service clients, and if such transactions arise will charge the SWHYG Group, a certain percentage of the total transaction amount. According to the terms of the 2019 SWHYG MOU, the fees charged by the Group to the SWHYG Group relating to the brokerage services for Hong Kong and overseas capital markets will be determined based on normal commercial principles including individual negotiation. Fees shall be based on a fixed percentage (0.1%-0.2%) of the gross consideration of clients' trade turnover with reference to market levels and actual circumstances, and the prevailing market rates charged by the Group to its existing clients. We have reviewed the fee charged by the Group to its independent third parties clients in relation to the Hong Kong and overseas capital markets. We noted that the brokerage commission rate offered by the Group to the SWHYG Group is within the range of those offered to the independent third parties clients. Having considered this pricing policy, we are satisfied that it is a fair and reasonable basis to price these transactions.

According to the Group's internal policy, on an annual basis or more regularly as necessary, the Group will compare the brokerage rates charged against at least five other independent third party customers which had transacted with the Group for similar transaction values for comparisons of the brokerage rates.

Given that (i) the general and transparent nature of market brokerage rates; and (ii) the brokerage commission rate offered by the Group to the SWHYG Group is within the range of those offered to independent third parties clients of the Group, we are of the view that the internal policy above, including the frequency of comparisons, is practicable and fair and reasonable.

4.2.2 Investment operational support and investment advisory services transactions

Nature of the service

Operational supporting services provided by the Group to the SWHYG Group mainly include client referrals, business and market consultation services and personnel training services in support of the development and operation of the SWHYG Group. Services coverage includes, but is not limited to, assisting in the launch and the anticipated launch of the Onshore Investors Schemes such as QDII, QDII2, RQDII, Mutual Recognition of Hong Kong and China Fund Programs and overseas commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, as well as the launch and the anticipated launch of the Offshore Investors Schemes such as QFII and QFII2.

In relation to the Onshore Investors Schemes, services to be provided by the Group include (i) assigning relevant professional service personnel to provide consulting services to the SWHYG Group; (ii) providing data for financial products such as stocks, funds, bonds, indices, financial news, market trends, policy and regulatory news update; (iii) providing reports on industry, reports on companies, macroeconomics, investment strategies, etc.; and (iv) providing special advisory services on matters related to securities investment.

Investment advisory services provided by the Group refer to the asset management service to the SWHYG Group regarding the management of its capital with investments. Scope of services includes the provision of investment advisory services and asset management service for offshore securities investment, single orientation asset management and other asset management programs.

Pricing of the transactions

The Group charges fees for operational supporting services provided to the SWHYG Group on normal commercial principles or cost recovery principles.

For such operational supporting services, the Group will charge fees relating to the client referral, consulting services, personnel training and other supporting services, which will be determined based on (i) normal commercial principles (including individual negotiation with reference to market levels and actual circumstances); or (ii) cost recovery principles. We have reviewed the services agreements between the SWHYSC Group and the Group in relation to the operational supporting services and noted that the calculation of the fees charged by the Group is based on the different types of services rendered by the Group of the time-cost rates of the staff with reference to the market levels.

According to the Group's internal policy, the reasonableness of the fee charged for provision of such supporting services to the SWHYG Group will be verified by the Group by reference to the Group's relevant department's

judgement of time required for work of similar nature. The Group will also cross check the time-cost rates against the Group's relevant staff's salary rates to ascertain their reasonableness.

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

For the investment advisory services, the Group will charge fees relating to the asset management and advisory services, which will be determined with reference to, among other things, the fund management fees and performance fees charged to the Group's independent third party customers. We have reviewed the asset management agreements between the Group and independent third parties clients and noted that the asset management fee rates to be charged by the Group to the SWHYG Group are within the range of the asset management fee rates charged by the Group to its independent third parties clients. As advised by the Management, the typical ranges of fund management fee are (i) 0.3% to 0.5% for cash management; (ii) 1.0% to 1.5% for investment in listed equity; (iii) 0.5% for investment in debt securities; and (iv) 1.5% to 2.5% for private equity funds and derivatives instruments.

According to the Group's internal policy, on an annual basis or more regularly as necessary, the Group will compare the assets management fee rate charged against at least five other independent third party customers which had transacted with the Group for transaction of similar nature for comparisons.

Given that (i) the general and transparent nature of asset management fee rate in the market; and (ii) the asset management fee rate offered by the Group is within the range of the asset management fee rates charged by the Group to its independent third parties clients, we are of the view that (i) the internal policy above, including the frequency of comparisons, is practicable and fair and reasonable; and (ii) the pricing approach of the investment advisory services is fair and reasonable.

4.2.3 Corporate finance services transactions

Nature of the service

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

Pricing of the transactions

According to the terms of the 2019 SWHYG MOU, the fees charged by the Group to the SWHYG Group relating to the corporate finance business will be determined based on normal commercial principles (including with reference to market conventions and actual circumstances). The pricing will be based on a fixed percentage (8%-40%) of the revenue from third party customers for each project. Such fixed percentage will vary from one project to another depending on the amount of work performed by the Group and will be agreed in writing. We have reviewed the agreements in relation to the successfully completed corporate finance transactions which were referred by the Group to the SWHYSC Group under the 2016 SWHYSC MOU and noted that the revenue sharing arrangement was in line with the pricing policy as set out above.

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

Given the project-based nature of the supporting services and the fees will be compared to similar transactions of independent third parties of similar nature, we are of the view that the cross-check mechanism, where practicable, as described above is a reasonable approach to ensure fairness of pricing.

Given that (i) the services fee sharing percentage will vary from one project to another depending on the amount of work performed by the Group; and (ii) the pricing policy is in line with the revenue sharing arrangement in historical corporate finance transactions successfully referred by the Group to the SWHYSC Group, we are of the view that the above pricing policy is fair and reasonable.

4.3 Principal-to-principal transactions of investment products (between SWHYSC and the Group)

Nature of the service

Principal-to-principal transactions between the SWHYG Group and the Group include, but are not limited to, trading of debt securities on the primary and secondary debt markets, trading of structured products including, but are not limited to, interest rate-linked notes, OTC derivatives, equity-linked notes and total return swaps. All principal-to-principal transactions will be conducted between the SWHYG Group (via SWHYSC) and the Group on the basis that the Group has a back-to-back demand from its clients of the same transactions.

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Pricing of the transactions

Bonds on the primary debt market will be priced at face value. For bonds traded over-the-counter on the secondary debt market, the price and terms will be determined on the basis of arm's length negotiations and respective clients' demand for the market making business.

Structured products will be priced on normal and ordinary commercial terms and based on either (i) the complexity of the products' structure and market conditions at the time of issue and other factors; or (ii) if the products are tailor-made in accordance with the instructions of the purchasers, a cost-plus basis according to the complexity, structure, nature and volatility of the underlying assets and market conditions at the time of issue.

Total return swap transactions, which may account for the majority of the transactions in the principal-to-principal transactions of investment products, will only be conducted on a back-to-back basis initiated by the clients. The transaction amount comprises significantly the gain or loss attributable to the clients of the SWHYG Group in offshore trading and a relatively smaller amount of interest income generated from facilitating the transaction of total return swaps, which will be borne by such clients. Therefore, the Group can derive handling fee from the clients with no or minimal risk given the back-to-back arrangement.

According to the Group's internal policy, on an annual basis or more regularly as necessary, the Management confirmed that the Group shall refer to similar structured products and bonds traded over-the-counter purchased or sold by the Group to ensure the transaction with the SWHYG Group is on normal commercial terms. In particular, the Group's exposure for such principal-to-principal transactions will be contained as it is only conducted on a back-to-back basis when the Group's clients have demand for these products, and the pricing of the transaction between the Group and the SWHYG Group will be used as the basis of the pricing for the back-to-back transaction between the Group and its clients.

Having considered that the above, we are of the view that the pricing of the principal-to-principal transactions of investment products is fair and reasonable.

The principal-to-principal transactions of investment products are new category of Continuing Connected Transactions between the Group and the SWHYG Group. Having considered that (i) potential increase demand of cross-border investment products by the customers of the SWHYG Group and the Group resulting from the possible listing of SWHYG on the Stock Exchange; (ii) the pricing policy of the principal-to-principal transactions of the investment products is fair and reasonable; and (iii) the handling fee generated from the total return swap transactions, which may account for the majority of the transactions in this category, are derived with no or minimal risk, we are of the view that the principal-to-principal transactions of investment products are in the interests of the Company and the Shareholders as a whole.

5. Monitoring and review of the Continuing Connected Transactions

On a yearly basis, the auditors submit a letter to the Board confirming that the Continuing Connected Transactions:

- (i) have received the approval of the listed issuer's board of directors;
- (ii) are in accordance with the pricing policies of the listed issuer if the transactions involve provision of goods or services by the listed issuer;
- (iii) have been entered into in accordance with the relevant agreement governing the transaction; and
- (iv) have not exceeded the cap disclosed in previous announcement(s).

The independent non-executive Directors will conduct an annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm on the transactional amounts and terms of the transactions in the annual report of the Company.

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

6. Reasons for carrying out the Continuing Connected Transactions

The Directors believe that the entering into of the 2019 SWHYG MOU will serve as a platform for more extensive cooperation between the Group and the SWHYG Group. Services provided by the SWHYG Group can enable the Group to provide a more comprehensive range of services to its customers, and the Group can use this expanded range of services to attract and retain customers. Furthermore, the reciprocal nature of services such as the supporting services in relation to capital markets and the corporate finance business means that the Group can benefit both from the fees charged to the connected parties as well as the increased business opportunities provided by the connected parties. As a result of the above, the Group and the SWHYG Group may benefit through efficient use of their respective clientele and resources, and a synergy effect is expected to be achieved as a result of their cooperation whilst the Management also believes that the Group's service quality will be enhanced through the provision of cross-border financial intermediary services.

Having reviewed the terms of the 2019 SWHYG MOU, the Company's internal policies governing transactions entered into between the Group and the SWHYG Group, and considering the reasons for entering into the transactions, we are of the view that these transactions as contemplated under the 2019 SWHYG MOU are on normal commercial terms, are in the usual and ordinary course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned.

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7. Annual Caps

7.1 The Previous Annual Caps and the historical transaction amounts under the 2016 SWHYSC MOU and the 2016 SWS Research MOU

Set out in the following table are the Previous Annual Caps and the historical transaction amount of the transactions carried out under the 2016 SWHYSC MOU and the 2016 SWS Research MOU during the seven months ended 31 December 2016 and the two years ended 31 December 2018 (“**Review Period**”). According to the Management, figures for the period from 1 January 2019 up to the Latest Practicable Date are not yet available.

	For the seven months ended 31 December 2016			For the year ended 31 December 2017			For the year ended 31 December 2018		
	Actual amount HK\$'000 (audited)	Previous Annual Cap HK\$'000	Utilisation rate %	Actual amount HK\$'000 (audited)	Previous Annual Cap HK\$'000	Utilisation rate %	Actual amount HK\$'000 (audited)	Previous Annual Cap HK\$'000	Utilisation rate %
Annual Caps for services relating to the SWHYSC Transactions comprising:	11,111	63,251	17.6	18,701	116,020	16.1	9,434	124,142	7.6
— brokerage services relating to the PRC capital markets by the SWHYSC Group to the Group	756	8,083	9.4	896	14,826	6.0	718	15,864	4.5
— supporting services for the PRC market by the SWHYSC Group to the Group	1,000	8,801	11.4	4,078	16,143	25.3	3,343	17,273	19.4
— brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYSC Group	—	5,280	—	—	9,686	—	—	10,364	—
— supporting services relating to Hong Kong and overseas capital markets by the Group to the SWHYSC Group	8,220	24,343	33.8	12,950	44,651	29.0	13,948	47,777	29.2
— supporting services in connection with corporate finance business by the Group to SWHYSC Group	1,135	9,254	12.3	—	16,975	—	1,425	18,163	7.8
— supporting services in connection with corporate finance business by the SWHYSC Group to the Group	—	7,490	—	777	13,739	5.7	—	14,701	—
Annual Caps for services relating to the SWS Research Transactions comprising:	2,405	21,749	11.1	7,300	39,900	18.3	3,500	42,674	8.2
— supporting services relating to research by SWS Research to the Group (except for the Group's corporate finance business)	2,405	18,482	13.0	7,300	33,900	21.5	3,500	36,274	9.6
— supporting services in connection with corporate finance business by SWS Research to the Group	—	3,267	—	—	6,000	—	—	6,400	—

As seen in the above table, the historical utilisation of the Previous Annual Caps during the Review Period was generally low. In particular, during the Review Period, the Group had not provided any brokerage services relating to the Hong Kong and overseas capital markets to the SWHYSC Group.

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

Based on our discussion with the Management, we noted that in general the frequency and magnitude of transactions relating to brokerage services and supporting services in capital markets depends to a large extent on market sentiments as well as government policies and initiatives. In respect of brokerage services and supporting services for the PRC capital markets, it can be observed from the tables that utilisation rates had dropped during the Review Period, which was in line with the downward trend of the PRC securities market and the reduced trading volume since reaching the peak at around 5,100 levels for Shanghai Stock Exchange Composite Index in 2015.

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

The utilisation rate of supporting services relating to the PRC capital markets remained at low level due to stagnant PRC market conditions over the Review Period as explained above. Albeit at low levels, the Management noted that the use of support services of the Group had increased during the Review Period as the Group has been promoting the awareness of the PRC market to its clients by engaging SWHYSC Group for market consultation services and personnel training services.

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

The Management explained that based on their discussions with SWHYSC, there was minimal demand from SWHYSC Group's PRC-based investors for shares and products of Hong Kong and overseas capital markets during the Review Period as there were still many restrictions being imposed and the pace of relaxation of QDII quotas were slower than anticipated.

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

The utilisation rate of the Previous Annual Cap for supporting services was not high due to market condition during the Review Period. Notwithstanding, the transaction amount had been on an increasing trend as the SWHYSC Group has been promoting the awareness of the Hong Kong market by engaging the Group to provide training, market data and reports. We noted that the Group provided consulting services in relation to, among others, QDII investments to the SWHYSC Group during the Review Period, which is in line with the grant of QDII quota by the State Administration of Foreign Exchange of the PRC to the SWHYSC Group since 2015.

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

There were only nominal transactions in respect of supporting services for corporate finance business provided by the Group which mainly covered the aspect of business referrals. Based on our discussion with the Management, the business referrals for corporate finance businesses were meant to cover initial public offerings, mergers and acquisition transactions as well as fund raising projects. As referral fee is only payable upon the completion of execution of the transactions, given that there were only two successful referrals which were completed during the Review Period, the utilisation rate of the supporting services in connection with corporate finance business by the Group to the SWHYSC Group was lower than expected.

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

There were only nominal transactions in respect of supporting services for corporate finance business provided by the SWHYSC Group which mainly covered the aspect of business referrals. Based on our discussion with the Management, the business referrals for corporate finance businesses were meant to cover initial public offerings, mergers and acquisition transactions as well as fund raising projects. As referral fee is only payable upon the completion of execution of the transactions, given that there was only one successful referral which was completed during the Review Period, the utilisation rate of the supporting services in connection with corporate finance business by the SWHYSC Group to the Group was lower than expected.

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

The level of supporting services relating to research provided by SWS Research bore correlation to the level of interests of the Group's clients in investing in the PRC related markets. The overall market condition of the PRC market was less active after the last market peak in 2015. As such, the demand for research services on the PRC market by customers of the Group remained low during the Review Period.

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

The supporting services cover mainly provision of information services to facilitate corporate finance transactions and client referrals. The Management explained that during the Review Period (i) there had not been many successful referrals due to specific reasons of the transactions involved not being completed; and (ii) some corporate finance transactions did not require research services.

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

We note that when determining and formulating the Annual Caps, the Management has taken into consideration the comparatively low historical utilisation for certain categories such as brokerage services and has adjusted downwards their Annual Caps compared with the Previous Annual Caps. This is further discussed in the section below headed "7.2 Proposed Annual Caps".

7.2 Proposed Annual Caps

The proposed Annual Caps for the Continuing Connected Transactions pursuant to the 2019 SWHYG MOU are as follows:

	Seven months ending 31 December 2019 HK\$'000	Year ending 31 December 2020 HK\$'000	2021 HK\$'000	Five months ending 31 May 2022 HK\$'000
Annual Caps for services relating to the SWHYG Transactions comprising:				
(i) brokerage services relating to the PRC capital markets from the SWHYG Group to the Group	2,102	3,964	4,360	1,998
(ii) supporting services for the PRC market from the SWHYG Group to the Group	9,689	18,271	20,098	9,212
(iii) supporting services relating to research from SWHYG Group to the Group	13,565	25,579	28,137	12,896
(iv) supporting services in connection with corporate finance business from the SWHYG Group to the Group	44,917	84,060	91,786	41,768

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	Seven months ending 31 December 2019 HK\$'000	Year ending 31 December 2020 HK\$'000	2021 HK\$'000	Five months ending 31 May 2022 HK\$'000
(v) brokerage services relating to Hong Kong and overseas capital markets from the Group to the SWHYG Group	2,907	5,481	6,029	2,763
(vi) supporting services relating to Hong Kong and overseas markets from the Group to the SWHYG Group	53,322	100,550	110,605	50,694
(vii) supporting services in connection with corporate finance business from the Group to the SWHYG Group	5,928	11,178	12,296	5,636
(viii) principal-to-principal trading of financial products	1,180,404	4,039,250	8,078,500	6,732,083
Annual Cap (total)	1,312,834	4,288,333	8,351,811	6,857,050

7.3 Basis of the Annual Caps for the Continuing Connected Transactions

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

General expectation on financial market developments

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

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

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transaction at fair and reasonable terms, any additional Continuing Connected Transaction being conducted will be beneficial to the Group and the Shareholders as a whole.

Business nature of financial service firms

We also recognise the difference in business nature of the Group as a financial service firm where the values of financial transactions are highly scalable albeit volatile. For example, unlike a manufacturing business where the value of goods produced at its production facility is limited by the capacity of its machinery and labour force, a financial service firm has less constraint in generating brokerage income during periods if and when financial markets are active. For example, the value of brokerage transactions that can be handled by a team of institutional sales brokers is dependent more on the financial market conditions rather than the number of deals the team can physically execute. In other words, the value of financial transactions can vary significantly when financial markets fluctuate. As an illustration, this can be evidenced by the substantially higher transaction volume of shares in the Stock Exchange during the first quarter of 2018. Consequently, we are of the view that it is reasonable for the Management to put in place higher levels of Annual Caps as buffers despite the fact that historically, the relevant transaction value had been low or there had been no transaction.

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

When determining the Annual Caps, the Management has applied a general annual growth rate of 10% after making reference to:

- (i) overall expansion of the PRC and Hong Kong financial markets brought about by the launches of the aforesaid governmental reforms or programs;
- (ii) enhanced market presence and brand name of the SWHYG Group in Hong Kong following the possible listing of SWHYG on the Hong Kong Stock Exchange;
- (iii) enhanced relationship with the SWHYG Group after the increase in shareholding interests of the SWHYG Group in the Group in February 2019 which reflected the SWHYG Group's confidence and commitment to support the development of the Company; and
- (iv) expected rise in the costs of services provided by the Group and the SWHYG Group due to inflation.

Basis of determining each category of Annual Cap

Services provided by the SWHYG Group to the Group

7.3.1 Brokerage services transactions

The brokerage services relating to the PRC capital markets mainly represent B-share trading services, potential securities trading services under the Offshore Investors Schemes (including but not limited to QFII, QFII2, RQFII, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect), and other anticipated securities trading services. The Annual Cap for such brokerage services provided by the SWHYG Group to the Group are determined based on:

- (i) the historical non-Hong Kong securities brokerage commission income of the Group, amounted to approximately HK\$32.8 million for the year ended 31 December 2018;
- (ii) expected amount of commission income derived from brokerage services relating to the PRC market, which is underpinned by the demand of B-share brokerage services and B-H share Conversion;
- (iii) the SWHYG Group charges the Group at a fixed percentage of 0.05% to 0.10% of the gross consideration of clients' trade turnover while the Group charges its clients at a fixed percentage of 0.10% to 0.20% of the gross consideration of clients' trade turnover; and
- (iv) estimated annual growth rate of 10.0% in service fees taking into account the increasing demand for brokerage services relating to the PRC markets upon the anticipated introduction of or increase in limits of some Offshore Investors Schemes, together with the potentially higher brokerage activities underpinned by the "Shenwan Hongyuan" brand name following the listing of SWHYG on the Stock Exchange.

7.3.2 Investment operational supporting services transactions

The supporting services for the PRC market mainly represent business and market consultation services and personnel training services in relation to QFII, QFII2, RQFII, the Mutual Recognition of Hong Kong and China Fund Programs, domestic commodity futures, Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

According to the Management, the supporting services relating to the PRC market are predominantly correlated with the Group's level of business and performance. In this regard, the Management expects the promotion activities relating to the PRC market to its clients to be in line with the growth in the Group's customer base in Hong Kong, which in turn will require more supporting services for the PRC market provided by the SWHYG Group to the Group.

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The Annual Cap for such supporting services provided by the SWHYG Group to the Group are determined based on:

- (i) the historical Hong Kong securities brokerage commission income of the Group of approximately HK\$151.0 million for the year ended 31 December 2018;
- (ii) the estimated costs to be incurred by the SWHYG Group in connection with provision of the supporting services to the Group; and
- (iii) the estimated annual growth rate of 10.0% in service fees taking into account the expected rise in demand for such services as discussed above and the expected increase in costs charged by the SWHYG Group due to inflation.

Having considered that (i) the fees charged in relation to investment operational supporting services is determined by normal commercial principles; (ii) the Annual Cap for investment operational supporting services is determined with reference to the historical brokerage income of the Group; (iii) the Annual Cap for this category is increased after applying the growth rate of 10.0% in view of the expected rise in demand for such services and expected increase in costs as discussed above, we are of the view that the Annual Cap for investment operational supporting services transactions by the SWHYG Group to the Group is fair and reasonable.

7.3.3 Research services transactions

The provision of research services by the SWHYG Group mainly includes provision of economic analysis reports, investment strategy reports, industry sector reports, Hong Kong and the PRC listed company research reports, fixed income product research reports, and derivative product research reports to support the Group's securities, futures, and corporate finance business.

These research reports to be provided by the SWHYG Group help promote the Group's brokerage business including, but not limited to, Hong Kong and non-Hong Kong securities, futures, options, total return swaps and etc. The Management explained that the amount of research services needed is largely dependent on the growth in the Group's customer base in Hong Kong, such that the costs incurred by the SWHYG Group in providing research services to the Group is therefore correlated with the Group's level of business and performance in Hong Kong.

The Annual Cap for such services provided by the SWHYG Group to the Group are determined with reference to:

- (i) the historical Hong Kong securities brokerage commission income of the Group of approximately HK\$151.0 million for the year ended 31 December 2018;

- (ii) the expected proportion of investors who requires the Group's research services;
- (iii) the estimated costs to be incurred by the SWHYG Group in connection with provision of the research services to the Group; and
- (iv) the estimated annual growth rate of approximately 10.0% in service fees taking into account the expected rise in demand for such services arising from the increasing foreign interests in PRC related securities and the expected increase in costs charged by the SWHYG Group due to inflation.

7.3.4 Corporate finance transactions

The supporting services for corporate finance business mainly represent the information services, client referrals and research services in connection with corporate finance projects, listing projects, merger and acquisition projects and financial advisory projects. The financial advisory services include, but are not limited to, pre-IPO private placement and the introduction of strategic investors, as well as advice on the sale of securities and corporate restructuring.

The Management believes that such services provided by the SWHYG Group are correlated to the SWHYG Group's performance in corporate finance business. In particular, the growth in SWHYG Group's customer base in its corporate finance business will likely lead to increase in the number of potential transactions or deals referred to the Group.

The Annual Cap for such services provided by the SWHYG Group to the Group are determined with reference to:

- (i) the historical revenue generated from corporate finance business of the SWHYG Group;
- (ii) the growth of the Group's corporate finance business, especially debt capital market division, potential value of the transactions, the research fees and referral rates in the market for such value of transactions;
- (iii) the corporate finance projects are project-based by nature, therefore the costs incurred by SWHYG Group in relation to such services to a large extent depended on the successful execution of the corporate finance transactions which in turn are subject to relatively high level of uncertainties; and
- (iv) the estimated annual growth rate of approximately 10% in service fees taking into account the fund raising activities of PRC companies listed in Hong Kong and the PRC markets in recent years as well as the anticipated growth of the respective markets.

Services provided by the Group to the SWHYG Group

7.3.5 Brokerage services transactions

As advised by the Management, the Annual Cap for brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYG Group are determined with reference to:

- (i) the commission income on dealings of Hong Kong securities derived from the clients of the Group of approximately HK\$151.0 million in 2018 on the basis that the market condition in Hong Kong will have an impact on the SWHYG Group's clients' interests in Hong Kong securities;
- (ii) the expected trading value on the Hong Kong securities of the clients of the SWHYG Group will account for 10% of the Group's commission income on dealings of Hong Kong securities, which is estimated taking into account (a) the launch and the anticipated launch of the Onshore Investors Schemes; and (b) the potential enhancement of market presence of the SWHYG Group and the Group following the possible listing of SWHYG on the Stock Exchange; and
- (iii) the expected revenue sharing arrangement between the Group and the SWHYG Group. The Group charges a fixed percentage of (0.1% to 0.2%) of the gross consideration of SWHYG Group's clients' trade turnover while the SWHYG Group will in turn charge the Group approximately 70% of such commission received by the Group from its clients. In other words, the Group will share 30% of the total commission fee received from the clients of SWHYG Group.

We have reviewed a summary prepared by the Company of the average securities brokerage commission rate of 0.166% independent third party clients of the Group with a total securities brokerage transaction value of over HK\$91 million during the year ended 31 December 2018.

Based on our review of various publications by relevant government agencies, we noted the general progress in the launch and the anticipated launch of the Onshore Investors Schemes. We noted that the Management has adjusted downwards the Annual Cap for this category of transaction in view of the fact that no transaction was conducted during the Review Period.

Having considered that (i) the brokerage commission rate charged by the Group to the SWHYG Group is within the range of or higher than the commission rate applicable to independent third party clients; (ii) the expected commission income is determined with reference to the historical brokerage commission income of the Group; (iii) the Annual Cap for this category is adjusted downwards in view of nil transaction during the Review Period, we are of the view that Annual Cap for brokerage services relating to Hong Kong and overseas capital markets by the Group to the SWHYG Group is fair and reasonable.

7.3.6 Investment operational support and investment advisory services transactions

Notwithstanding that the relevant Previous Annual Cap was not highly utilised, the Management considers that there will be fresh demand on the investment operational support and investment advisory services from the SWHYG Group given that various measures allowing PRC investors to invest in overseas capital markets have been launched or are being planned. During the Review Period, the historical amount of this category of transaction had been stable.

As stated in the paragraph headed “4.2.2 Investment operational support and investment advisory services transactions” above, the Group will charge fees relating to investment operational support services, which will be determined based on (i) normal commercial principles; or (ii) cost recovery principles. For investment advisory services, the Group will charge fees with reference to, among other things, the fund management fees and performance fees of independent third parties in the market.

As advised by the Management, the Annual Cap for investment operational support relating to Hong Kong and overseas markets from the Group to the SWHYG Group were determined based on:

- (i) the historical revenue generated from the brokerage business of the Group of approximately HK\$225.7 million and HK\$248.1 million for the two years ended 31 December 2018, respectively; and
- (ii) the possibility that the Group may provide investment operational support services to the SWHYG Group which will account for approximately 15% of such revenue generated from the brokerage business taking into account (a) the fact that the actual transaction amount of the investment operational supporting services accounted for over 6% of the Group’s brokerage income in 2018; and (b) the Management’s intention to further enhance the cooperation with the SWHYG Group in the promotion of the Hong Kong market following the possible listing of SWHYG on the Stock Exchange.

Another significant factor for the consideration of Annual Caps is fees chargeable for asset management services by the Group to the SWHYG Group, which, as advised by the Management, is determined with reference to:

- (i) the expected assets under management of approximately HK\$5.5 billion taking into account, among others, the estimated proceeds to be received by SWHYG from the possible listing on the Stock Exchange and possible further expansion of asset under management as assigned by the SWHYG Group; and
- (ii) the average asset management fee of 1% and the possible performance fee.

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We have reviewed the asset management agreements entered into between the Group and independent third party clients and noted that the assumed management fee level is within the range of the management fee rate charged by the Group to independent third parties clients. According to the 2018 Annual Results Announcement, a subsidiary of the Group has fully utilised on RQFII innovative policy to vigorously conduct cross-border asset management business. The total asset under management of the Group has increased substantially from approximately HK\$4.4 billion in 2017 to approximately HK\$6.9 billion in 2018. The revenue from asset management business achieved a year-on-year increase by 329% in 2018. We are of the view that it is reasonable to expect that the SWHYG Group will assign a certain portion of the proceeds it may receive from its possible listing to be managed by the Group.

Having considered that (i) fees charged relating to investment operational support services is determined by normal commercial principles; (ii) the Annual Cap for investment operational support and investment advisory services is determined with reference to the historical brokerage income of the Group and the expected size of asset under management; (iii) the historical amount of this category of transaction had been on an increasing trend during the Review Period; and (iv) the higher Annual Cap for investment operational support and investment advisory services transactions as compared to the Previous Annual Cap is attributable to the expected fees chargeable for asset management services provided by the Group to the SWHYG Group, we are of the view that Annual Cap for investment operational support and investment advisory services transactions by the Group to the SWHYG Group is fair and reasonable.

7.3.7 Corporate finance business supporting services transactions

Notwithstanding that there were only nominal transactions during the Review Period, the Management considers, and we concur, that given the project-based nature of corporate finance transactions, where the size of a single project can be large in terms of monetary value, and the increasing demand for cross-border business in relation to securities listings, the proposed Annual Cap is fair and reasonable.

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As advised by the Management, the Annual Cap for corporate finance business supporting services transactions are determined with reference to:

- (i) the revenue generated by the corporate finance arm of the Group in 2018 of approximately HK\$23 million. Such revenue was related to the customer base and the level of activities of the Group's clients in corporate finance transactions. The Group will more likely make referrals to the SWHYG Group for corporate finance transactions if the market environment is robust;
- (ii) the historical revenue sharing arrangement on corporate finance transactions (8% to 40% of the revenue from third party customers for each project) depending on the nature of the transaction and the amount of work to be performed by the Group; and
- (iii) the potential transaction amount of the corporate finance transactions under execution, the referral fee of which is only payable upon completion of execution and is subject to the success rate of such transactions.

The demand for supporting services which relate to provision of information services and client referrals for corporate finance business is expected to be underpinned by increase in cross-border business in relation to securities listings in Hong Kong and the PRC. We note that this is in line with the fact that markets for initial public offering and corporate finance transactions have been buoyant in the recent few years. Given the average utilisation rate of the Previous Annual Cap is less than 10% during the Review Period, the Management has proposed a smaller Annual Cap.

Having considered (i) the increasing demand for cross-border business in relation to securities listings; (ii) the project-based nature of corporate finance transactions; and (iii) that the Annual Cap has been adjusted downward as compared to the same category of the Previous Annual Cap, we are of the view that the Annual Cap for corporate finance business supporting services transactions is fair and reasonable.

7.3.8 Principal-to-principal transactions of investment products

The principal-to-principal transactions of investment products are new transactions under the 2019 SWHYG MOU. As such, no historical transaction amount is available.

As advised by the Management, the Annual Cap of the principal-to-principal transactions of investment products include the amount of the following transactions based on the indicative demand from the Group's clients:

- (i) debt securities newly issued on the primary market being priced on their face value, which is expected to be relatively small as compared to the transaction amount of total return swap transactions;
- (ii) debt securities traded on the secondary market on price agreed after arm's length negotiation, which is expected to be relatively small as compared to the transaction amount of total return swap transactions;
- (iii) the notional amount of and revenue generated from derivatives, which is expected to be relatively small as compared to the transaction amount of total return swap transactions; and
- (iv) the settlement amount including the gain or loss attributable to the clients and the interest income generated from facilitating the transaction of total return swaps between the SWHYG Group and the Group. Such amount accounts for the majority of the Annual Cap for principal-to-principal transactions as the gain or loss attributable to the clients may be large in terms of monetary value. The Group's exposure for such principal-to-principal transactions will be contained as it is only conducted on a back-to-back basis when the Group's clients have demand for these products, and the pricing of the transaction between the Group and the SWHYG Group will be used as the basis of the pricing for the back-to-back transaction between the Group and its clients. In particular, any gain or loss will be borne by the clients and an interest income for facilitating such transactions will be charged to the clients. The Management confirmed that there will be no accounting impact on the Group's (i) balance sheet as the total return swap is an off-sheet item; and (ii) income statement as the gain or loss attributable to the clients and the interest income charged to the clients are passed between the Group and the SWHYG Group through the Group as an agent with no profit & loss impact on the Group. The Group will charge its clients an handling fee for such transaction.

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We noted that the Annual Cap for principal-to-principal transactions of investment products will increase 100% per year. Taking into account that (i) the gain or loss attributable to the clients may be large in monetary value; (ii) the Group's business relationship with the SWHYG Group will enhance following the increased shareholding interest in the Group directly held by the SWHYG Group and the possible listing of SWHYG on the Stock Exchange; and (iii) the Management advised that the gain or loss of a single transaction involving total return swap can be in millions to tens of millions and it is important that the Group be prepared to be able to take advantage of business opportunities arising from the enhancement of reputation of SWHYG following its possible listing on the Stock Exchange and the increasing demand of cross-border investment products, we are of the view that such annual growth rate is justifiable. Given that (i) while no historical transaction amount is available, such transactions will be driven by indicative demand from the existing customers and the increasing demand in the market; (ii) there are only a few qualified financial institutions in the PRC engaging in the business of cross-border structured products and the SWHYG Group is one of the qualified institutions; (iii) the Annual Cap mainly reflects the estimated gain or loss attributable to the clients where the Group will face no or minimal risk given the above back-to-back arrangements; and (iv) the 100% annual growth rate of the Annual Cap for this category is justifiable, we consider the Annual Cap for principal-to-principal transactions is fairly determined.

As the demand for cross-border financial services from the customers of the Group and the SHWYG Group has been increasing in line with the possible listing of SWHYG on the Stock Exchange, the Management considers and we concur that it would be fair and reasonable to expect a substantial growth in this area of business.

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

LETTER FROM ALTUS CAPITAL LIMITED

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the terms of the Continuing Connected Transactions contemplated under the 2019 SWHYG MOU fall in the ordinary and usual course of business of the Group; (ii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; (iii) the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; (iv) the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution approving the Continuing Connected Transactions contemplated under the 2019 SWHYG MOU and the proposed Annual Caps related thereto at the EGM.

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

*Mr. Chang Sean Pey (“**Mr. Chang**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 20 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

1. RESPONSIBILITY STATEMENT

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

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

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

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

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

Name of Shareholders	Capacity and nature of interests	Long positions in Shares and underlying Shares	Shareholding percentage (%) (Note 1)
Shenwan Hongyuan Holdings (B.V.I.) Limited (“SWHYHBVI”)	Directly beneficially owned	402,502,312 (Note 2)	25.78

Name of Shareholders	Capacity and nature of interests	Long positions in Shares and underlying Shares	Shareholding percentage (%) (Note 1)
Venture-Some Investments Limited (“Venture-Some”)	Through controlled corporation	402,502,312 ^(Note 2)	25.78
Shenwan Hongyuan (International) Holdings Limited (“SWHY International”)	Through controlled corporation	402,502,312 ^(Note 2)	25.78
	Directly beneficially owned	768,306,257 ^(Note 3)	49.22
SWHYSC	Through controlled Corporation	1,170,808,569 ^(Notes 2 and 3)	75.00
SWHYG	Through controlled corporation	1,170,808,569 ^(Notes 2 and 3)	75.00

Notes:

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

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

4. DIRECTORS’ SERVICE CONTRACTS

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

5. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

Name of Director	Name of entity	Nature of interest of the Director in the entity	Description of business of the entity
Mr. Chen Liqiang	Sailing Capital Advisors (Hong Kong) Limited	Vice President	Equity investment and mergers and acquisitions business consultation

6. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

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

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

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

9. EXPERT AND CONSENT

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

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

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

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

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been acquired by, disposed of by or leased to any member of the Group, or which are proposed to be acquired by, disposed of by or leased to any member of the Group since 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up).

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

10. CORPORATE INFORMATION OF THE GROUP

- (a) The company secretary of the Company is Mr. Wong Che Keung Leslie, who is a Fellow of the Hong Kong Institute of Certified Public Accountants.
- (b) The share registrar of the Company is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The address of registered office of the Company is Level 19, 28 Hennessy Road, Hong Kong

11. MISCELLANEOUS

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

12. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the 2019 SWHYG MOU;
- (b) the articles of association of the Company;
- (c) the written consent of expert mentioned in the Expert and Consent section of this Appendix;
- (d) 2017 and 2018 annual reports of the Company;
- (e) 2017 and 2018 interim reports of the Company;
- (f) the "Letter from the Board", the text of which is set out on pages 6 to 26 of this circular;

- (g) the “Letter from the Independent Board Committee”, the text of which is set out on pages 27 and 28 of this circular;
- (h) the “Letter from the Independent Financial Adviser”, the text of which is set out on pages 29 to 61 of this circular; and
- (i) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



SHENWAN HONGYUAN (H.K.) LIMITED

申萬宏源（香港）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Shenwan Hongyuan (H.K.) Limited (the “**Company**”) will be held at the TALK Meeting Room on 2nd Floor, OZO Wesley Hong Kong, 22 Hennessy Road, Wanchai, Hong Kong, on Friday, 17 May 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company.

ORDINARY RESOLUTION

“**THAT:**

- (a) the memorandum of understanding (“**2019 SWHYG MOU**”) entered into between Shenwan Hongyuan Group Co., Ltd. and the Company (a copy of which has been produced to the meeting marked “A” and initialled by the chairman of the meeting for identification purpose) in relation to the continuing connected transactions (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”)) and all the transactions contemplated thereunder as well as the proposed annual caps for the transactions contemplated under the 2019 SWHYG MOU for the seven months ending 31 December 2019, each of the two years ending 31 December 2021, and the five months ending 31 May 2022 as more particularly set out in the circular of the Company dated 30 April 2019 be and are hereby approved; and
- (b) the directors (the “**Directors**” and each a “**Director**”) be and are hereby generally and unconditionally authorised to do all such acts or things and execute and deliver all such documents, instruments and agreements which they consider necessary, desirable or expedient to give effect to the transactions contemplated under the 2019 SWHYG MOU, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company and in accordance with the Listing Rules (where relevant).”

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

Hong Kong, 30 April 2019

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy(ies) to attend and, subject to the provisions of the articles of association of the Company, vote on his behalf. A proxy need not be a member of the Company.
2. In order to be valid, a proxy form must be deposited together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, at the registered office of the Company at Level 19, 28 Hennessy Road, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.
3. Completion and delivery of the proxy form will not preclude you from attending and voting at the meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto; and if more than one of such joint holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. The ordinary resolution(s) to be considered at the meeting will be decided by poll.