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If you have sold or transferred all your shares in **HAITONG INTERNATIONAL SECURITIES GROUP LIMITED**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

海通國際證券集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 665)

**CONTINUING CONNECTED TRANSACTIONS
AND
MAJOR TRANSACTION
AND
NOTICE OF SPECIAL GENERAL MEETING**

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

SOMERLEY CAPITAL LIMITED

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 19 to 20 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 43 of this circular.

A notice convening the SGM to be held at Executive Meeting Room A, 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong on Friday, 24 May 2019 at 11:00 a.m. (or so soon thereafter as the annual general meeting of the Shareholders convened to be held at 10:30 a.m. on the same date and at the same place shall have been concluded or adjourned) is set out on pages N-1 to N-2 of this circular.

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

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DEFINITIONS

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

“2016 Announcements”	collectively, (i) the announcement of the Company dated 14 March 2016 on the Previous Transactions, (ii) the circular of the Company dated 11 April 2016 in relation to the Previous Transactions and (iii) the announcement of the Company dated 28 April 2016 on the poll results of the special general meeting of the Company held on 28 April 2016 for approving the Previous Transactions
“Announcement”	the announcement of the Company dated 17 February 2019 in relation to the Master Agreement
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Haitong International Securities Group Limited (stock code: 665), an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HSCL”	Haitong Securities Co., Ltd., a joint stock limited company incorporated in the PRC with limited liability whose overseas listed foreign invested shares are listed on the Main Board of the Stock Exchange (stock code: 6837) and its domestic listed shares are listed on the Shanghai Stock Exchange (stock code: 600837) and the holding company of HTIH

DEFINITIONS

“HSCL Group”	HSCL, its subsidiaries and/or any associates of which HSCL and/or any of its subsidiaries taken together are directly or indirectly interested in, but excluding members of the Group
“HTIH”	Haitong International Holdings Limited, a company incorporated in Hong Kong with limited liability which is a wholly-owned subsidiary of HSCL and the controlling shareholder of the Company, holding approximately 63% of the issued share capital of the Company as at the date of this circular
“Independent Board Committee”	an independent committee of the Board (which comprises Messrs. TSUI Hing Chuen William, LAU Wai Piu, WEI Kuo-chiang, WAN Kam To and Ms. LIU Yan all being the independent non-executive Directors) established to advise the Independent Shareholders with regard to the terms of the Master Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the terms of the Master Agreement and the continuing connected transactions contemplated thereunder
“Independent Shareholders”	the Shareholders, other than HTIH and its associates
“Latest Practicable Date”	16 April 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the master agreement entered into between the Company and HSCL on 15 February 2019 in relation to the Transactions, a summary of the principal terms of which is set out in this circular

DEFINITIONS

“PRC”	the People’s Republic of China which, for the purpose of this circular only, excludes Hong Kong, Macao Special Administrative Region of the PRC and Taiwan
“Previous Master Services Agreement”	the master services agreement entered into between the Company and HSCL on 14 March 2016 in relation to the provision of services arising from three principal categories of transactions, which expired on 31 December 2018, and the terms of which are summarised in the 2016 Announcements
“Previous Transactions”	the provision of services arising from three principal categories of transactions as contemplated under the Previous Master Services Agreement
“QDII”	the qualified domestic institutional investors program, a program which allows either licensed domestic institutional investors or eligible domestic investors to invest in capital markets outside the PRC (for example Hong Kong) through institutions that have obtained QDII status
“QFII”	the qualified foreign institutional investors program, 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 PRC regulators in the PRC’s securities and/or futures markets through institutions that have obtained QFII status
“RQFII”	the Renminbi qualified foreign institutional investors scheme, 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

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting to be convened and held by the Company to consider and, if thought fit, approve (among other matters) the Master Agreement, the transactions contemplated thereunder and the proposed annual caps
“Shareholder(s)”	the holder(s) of the ordinary shares of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the transactions contemplated under the Master Agreement, brief particulars of which are set out in the section headed “Letter from the Board — Nature of transactions” of this circular
“%”	per cent



HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

海通國際證券集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 665)

Board of Directors:

Executive Directors

Mr. LIN Yong (*Deputy Chairman and
Chief Executive Officer*)

Mr. LI Jianguo (*Deputy Chairman*)

Mr. POON Mo Yiu

Mr. SUN Jianfeng

Mr. SUN Tong

Non-executive Directors

Mr. QU Qiuping (*Chairman*)

Mr. CHENG Chi Ming Brian

Ms. WANG Meijuan

Mr. ZHANG Xinjun

Mr. William CHAN

Independent Non-executive Directors

Mr. TSUI Hing Chuen William *JP*

Mr. LAU Wai Piu

Mr. WEI Kuo-chiang

Mr. WAN Kam To

Ms. LIU Yan

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of

Business in Hong Kong:

22nd Floor, Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

24 April 2019

To the Shareholders

Dear Sirs or Madams

**CONTINUING CONNECTED TRANSACTIONS
AND
MAJOR TRANSACTION**

INTRODUCTION

Reference is made to the Announcement.

LETTER FROM THE BOARD

The purposes of this circular are to provide you with (i) information relating to details of the Master Agreement; (ii) the recommendation of the Independent Board Committee after having considered the advice of the Independent Financial Adviser in relation to the Master Agreement and the transactions contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the SGM to consider and, if thought fit, to approve the Master Agreement, the transactions contemplated thereunder and the proposed annual caps.

MASTER AGREEMENT

Background

Reference is made to the 2016 Announcements. Pursuant to the Previous Master Services Agreement, the Company and HSCL agreed that member(s) of the Group and member(s) of the HSCL Group would conduct the Previous Transactions with each other for a term of 3 years from 1 January 2016 to 31 December 2018.

On 15 February 2019 (after trading hours), the Company and HSCL have entered into the Master Agreement, pursuant to which, among others, the Group and the HSCL Group have conditionally agreed to engage in various services, and investment and financial transactions with each other for a term from 1 January 2019 to 30 June 2021. The Company and HSCL conditionally agreed that each of them will, and will respectively procure member(s) of the Group (to the extent practicable) and member(s) of the HSCL Group (to the extent practicable) to carry out in the ordinary course of business the Transactions with member(s) of the HSCL Group and member(s) of the Group (as the case may be). The principal terms of the Master Agreement are summarised below.

Principal terms of the Master Agreement

Date

15 February 2019 (after trading hours)

Parties

- (1) the Company; and
- (2) HSCL

Duration

The Master Agreement will, subject to compliance with all relevant Listing Rules requirements by each of the Company and HSCL, be effective for a term from 1 January 2019 to 30 June 2021. For the avoidance of doubt, any Transactions of which the applicable percentage ratio(s) is less than 5% have become effective after issuance of the Announcement whereas any Transactions of which the applicable percentage ratio(s) is 5% or more, will be subject to the shareholders' approval of the Company. As of the Latest Practicable Date, the applicable percentage ratio(s) in respect of the Transactions is less than 5%.

Nature of transactions

(1) Service Transactions

Brief particulars of the services transactions to be provided (a) by the Group to the HSCL Group and (b) by the HSCL Group to the Group as contemplated under the Master Agreement are summarised below:

LETTER FROM THE BOARD

- (i) **Brokerage transactions:** brokerage services and its ancillary services, (a) provided by the Group in relation to dealing in financial products (including back-to-back transactions) in Hong Kong or overseas, and (b) provided by the HSCL Group in relation to dealing in financial products (including back-to-back transactions) that are permitted by PRC and overseas regulators, and including proprietary trading of member(s) of the counterparty's group and placing agency services.
- (ii) **Investment management and advisory services transactions:** investment management and/or advisory services, including but not limited to the provision of financial analysis, asset allocation, and various kinds of ancillary consultancy, investment management and advisory services.
- (iii) **Business and/or operational support, referral, global research and/or other miscellaneous services transactions:** (I) providing business and/or operational support or referral and/or global research services etc. and other miscellaneous services including but not limited to performing as calculation agent and valuation agent, acting as collateral custodian, conducting market research, referring client and/or business between the Group and the HSCL Group for financial services, commercial and corporate finance deals etc; (II) providing research services, including but not limited to preparing industry sector or products reports of Hong Kong, overseas and PRC listed companies, designing products, participating in roadshows, etc.
- (iv) **Corporate finance advisory and services:** financial advisory services, including but not limited to advising on compliance with relevant laws and regulations, acting as placing agent, listing agent, bookrunner, sponsor, global co-ordinator and financial adviser etc., excluding underwriting commitment.

The transactions described in (1)(i) to (iv) above are collectively referred to as “**Category 1 Transactions**” in this circular.

(2) *Investment, Lending and Other Financial Transactions*

Brief particulars of the investment, lending and other financial transactions contemplated under the Master Agreement are summarised below:

- (i) **Fund investment, financial assistance and securities lending:** investment of funds into investment funds or entities jointly invested by the Group and the HSCL Group; providing secured or unsecured credits and/or loans; acting as arranger, agent or lead lender of syndicated loans; subscription of financial products (including in the nature of additional tier-1 bonds or similar quasi-equity instruments), lending of the units/shares. Such lent securities will be deposited in an account of HSCL Group maintained with the Group or an account of the Group maintained with the HSCL Group (as the case may be).

The preliminary term for securities lending transactions mentioned under this heading will be no more than 12 months, subject to extension of not exceeding 12 months each.

- (ii) **Principal-to-principal transactions:** entering into swaps arrangements (which do not belong to any other categories of transactions) and dealing in financial products (including in the nature of additional tier-1 bonds or similar quasi-equity instruments) between the Group and the HSCL Group on a principal-to-principal basis.

LETTER FROM THE BOARD

- (iii) **Underwriting:** underwriting between the Group and the HSCL Group for issue of securities and financial products, rights issues and placing, etc.

The transactions described in (2)(i) to (iii) above are collectively referred to as “**Category 2 Transactions**” in this circular.

The scope of the Transactions may be amended from time to time by agreement in writing between the Company and HSCL, subject to, if applicable, compliance by the Company with all relevant requirements under the Listing Rules.

The Group and the HSCL Group shall from time to time enter into specific agreements for the Transactions. The terms and pricing mechanism of the transactions under each specific agreement shall be fair and reasonable and negotiated on an arm’s length basis within their respective ordinary and usual course of business, which, (a) in respect of the services provided by the HSCL Group to the Group, shall be no more favourable to the HSCL Group than the pricing and terms provided by the HSCL Group to independent third parties for similar (including similar nature) transactions, and no less favourable to the Group than the pricing and terms provided to the Group by, or obtained by the Group from, independent third parties for similar (including similar nature) transactions; and (b) in respect of the services provided by the Group to the HSCL Group, shall be no less favourable to the Group than the pricing and terms provided by the Group to independent third parties for similar (including similar nature) transactions, and no more favourable to the HSCL Group than the pricing and terms provided to the HSCL Group by, or obtained by the HSCL Group from, independent third parties for similar (including similar nature) transactions.

Termination

The Master Agreement may be terminated before expiration of its full term upon mutual agreement in writing by both parties or in certain circumstances, including upon material default by a party.

Pricing and settlement method

Pursuant to the Master Agreement, the pricing of the Transactions are set out as follows:

Category 1 Transactions

Pricing in respect of income receivable by the Group from the HSCL Group will follow the Group’s pricing standard applicable to all its clients (connected persons and independent third parties alike), accordingly the amounts to be charged by the Group against the HSCL Group will be on the same scale as those charged against independent third parties by the Group for similar transactions.

In respect of expense payable by the Group to the HSCL Group, the pricing standard will be as follows:

- (i) **Brokerage:** The commission/distribution fees will be determined with reference to prevailing market rates for distribution of similar products by banks and financial institutions estimated to be ranging from 0.01% to 1%, and for trading in the Shanghai B Share and Shenzhen B Share markets, the commission/distribution fee is normally in the region of 0.07%, on par with the overall rates and fees commonly charged by independent third party brokers.

LETTER FROM THE BOARD

- (ii) Investment management and advisory services: The management, performance and/or advisory fees payable by the Group will be determined with reference to the expected setup and operation costs as a baseline plus a margin based on the overall size, scope and period of the investment to be managed, rate of return of the project, QFII/RQFII available quota, setup or operating costs, business strategy direction and future cooperation potential, and advisory scope, as is appropriate, for comparable transactions in the market.
- (iii) Business/operational support, referral, global research and other services: The relevant fees payable by the Group will be determined with reference to the business of the entity involved in the transaction, mode of services, the size of the transactions, time and method of determining the transactions and the contracting parties' contribution to the transactions.
- (iv) Corporate finance advisory and services: The relevant fees payable by the Group will be determined with reference to the size, complexity and timing of subject transactions, the expected work and resources involved, and the then prevailing market rates for comparable transactions in the market.

Payments for Category 1 Transactions will be settled in cash (i) by way of deducting from the proceeds of the relevant transactions or the portfolio assets (as the case may be), or (ii) paid separately upon the completion of the transaction or in accordance with a schedule as agreed between the parties.

Category 2 Transactions

Pricing in respect of transaction amounts receivable by the Group from the HSCL Group will follow the Group's pricing standard applicable to all its clients (connected persons and independent third parties alike), accordingly the amounts to be charged by the Group against the HSCL Group will be on the same scale as those charged against independent third parties by the Group for similar transactions.

In respect of transaction amounts payable by the Group to the HSCL Group, the pricing basis will be as follows:

- (i) Fund investment, financial assistance and securities lending: (1) The fees and investment amounts for fund investment payable by the Group will be determined with reference to the size and structure of the investment, potential investment returns and timing and availability of funds, subject to a combination of cost based, market based and valuation based approach to achieve a positive net margin; (2) the terms of the financial assistance (not including margin financing) transactions conducted between the Group and the HSCL Group will be based on normal commercial terms, with interest rates to be paid by the Group calculated with reference to, the currency-specific HIBOR/LIBOR during the lending period plus approximately 1.25% to 1.275%, and for loans in Renminbi, with reference to the market rates offered by commercial banks, such as the Bank of China Limited, for the relevant lending period and a spread incorporating the average external funding cost of the Group on the basis of an unsecured loan; (3) the margin-financing transactions will be conducted with the interest rates determined with reference to standard reference rates such as HSBC Prime Rate applicable for different tiers of stock collaterals.

LETTER FROM THE BOARD

- (ii) Principal-to-principal trading: The financial products, including any over-the-counter (OTC) derivative products, expected to be acquired by the Group from HSCL Group will be acquired on the same terms which will equally apply to all independent third party purchasers of similar products.
- (iii) Underwriting commitment: The underwriting commitment by the Group will be determined through arm's length negotiations by the parties with reference to the Group's then financial capacity and resources allocated for such purpose, size of the transaction, risk tolerance level and market conditions, where applicable.

Payments for Category 2 Transactions will be settled in cash (i) by way of deducting from the proceeds of the relevant transactions or the portfolio assets (as the case may be), or (ii) paid upon completion of the transaction separately or in accordance with a schedule as agreed between the parties.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER AGREEMENT

As the Transactions are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group, the entering into of the Master Agreement will enhance the Group's ability to conduct the Transactions, some of which are time-sensitive in nature, without the need for the Company to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for entering into the Transactions. The Transactions are expected to fully utilize the existing business setup between the Group and the HSCL Group and lower the Group's operating costs and provide an additional source of revenue for the Group. In addition, it is expected that the Transactions would bring synergies to the Group and the HSCL Group. It is also considered that the Transactions would secure a long-term and reliable business association between the Group and the HSCL Group.

The Board is of the opinion that the Transactions are in the ordinary and usual course of business of the Company, the terms of the Master Agreement are on normal commercial terms and are fair and reasonable and the entering into of the Master Agreement is in the interests of the Group and the Shareholders as a whole.

None of the Directors has any material interest in the Master Agreement and the Transactions and hence none of them is required to abstain from voting on the relevant Board resolution(s) for approving the Master Agreement and the Transactions. Nevertheless, as each of Mr. QU Qiuping, Mr. LIN Yong, Mr. LI Jianguo, Mr. POON Mo Yiu, Mr. SUN Tong, Ms. WANG Meijuan and Mr. ZHANG Xinjun is also a director or officer (as the case may be) of certain members of the HSCL Group, they have voluntarily abstained from voting on the relevant Board resolution(s).

Financial effects of the financial assistance transactions under the Master Agreement

Assets and liabilities

As a result of the provision of the financial assistance by the Group to the HSCL Group as contemplated under the Master Agreement, it is expected that the "Accounts receivable" will increase, while the corresponding financial effects will be reflected by way of a decrease in "cash and cash equivalents".

LETTER FROM THE BOARD

As a result of receiving financial assistance to be provided by the HSCL Group to the Group as contemplated under the Master Agreement, it is expected that the “Bank loans and other borrowings” will increase, while the corresponding financial effects will be reflected by way of an increase in “cash and cash equivalents”. Given these financial effects, the Directors are of the view that the provision of the financial assistance will not have any material financial effects on the net asset value of the Group.

Earnings

Since the interest income and arrangement fees will be received by the Group for the provision of financial assistance to the HSCL Group, the earnings of the Group will increase by an amount equivalent to such income arising from the financial assistance transactions in the relevant period. On the other hand, interest expenses and other fees are to be paid by the Group for the financial assistance to be provided by the HSCL Group under the Master Agreement, which will decrease the earnings of the Group by an amount equivalent to such expenses. Given these financial effects, the Directors expect that there will be no significant impact on the Group’s consolidated profit or loss account.

HISTORICAL TRANSACTION FIGURES AND THE PROPOSED ANNUAL CAPS

Historical transaction figures in respect of continuing connected transactions carried out under the Previous Master Services Agreement for the three financial years ended 31 December 2016, 2017 and 2018 are shown below:

	Historical transaction figures for the financial year ended 31 December		
	2016	2017	2018
Previous Transactions	(HK\$ million)	(HK\$ million)	(HK\$ million)
(1) Service transactions (Category 1 Transactions)			
(a) Income received from service transactions provided to member(s) of the HSCL Group (including fees and commissions received from the HSCL Group in respect of the underwriting by the Group)	4.76 ^(Note 1)	4.31 ^(Note 1)	6.16 ^(Note 1)
(b) Expenses incurred for service transactions provided by member(s) of the HSCL Group (including fees and commissions paid by the Group in respect of the underwriting by the HSCL Group)	0.70 ^(Note 2)	31.89 ^(Note 2)	41.44 ^(Note 2)
(2) Investment and financial transactions (Category 2 Transactions, but excluding underwriting commitments which are set out in (3) below)			
(a) Sum received from the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	Nil	Nil	Nil
(b) Sum paid to the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	444.84	409.23	558.96
(c) Transaction amount attributable to principal-to-principal transactions between the Group and the HSCL Group	203.12	Nil	1,183.97

LETTER FROM THE BOARD

		Historical transaction figures for the financial year ended 31 December		
		2016	2017	2018
Previous Transactions		(HK\$ million)	(HK\$ million)	(HK\$ million)
(3)	<i>Underwriting commitments</i>			
(a)	Amount of underwriting commitments provided by the Group	Nil	Nil	436.50
(b)	Amount of underwriting commitments provided by the HSCL Group	76	Nil	Nil

Notes:

- Income from (i) brokerage transactions was approximately HK\$0.58 million, HK\$0.41 million and HK\$0.47 million for the three years ended 31 December 2016, 2017 and 2018 respectively; (ii) investment management and advisory services transactions was approximately HK\$3.35 million, HK\$3.21 million and HK\$4.75 million for the three years ended 31 December 2016, 2017 and 2018 respectively; (iii) corporate finance advisory and services transactions was approximately HK\$0.83 million, HK\$0.69 million and HK\$0.94 million for the three years ended 31 December 2016, 2017 and 2018 respectively. No income from business/operation support, referral, global research and other services transactions was recorded for the three years ended 31 December 2016, 2017 and 2018.*
- Expenses incurred from (i) brokerage transactions was approximately HK\$0.70 million, HK\$2.57 million and HK\$0.67 million for the three years ended 31 December 2016, 2017 and 2018 respectively; (ii) business/operation support, referral, global research and other services transactions was approximately HK\$29.32 million for the year ended 31 December 2017 and no expenses was recorded for the years ended 31 December 2016 and 2018; (iii) corporate finance advisory and services transactions was approximately HK\$40.77 million for the year ended 31 December 2018 and no expenses was recorded for the year ended 31 December 2016 and 2017. No expenses was incurred from investment management and advisory services for the three years ended 31 December 2016, 2017 and 2018 respectively.*

LETTER FROM THE BOARD

Proposed annual caps

Proposed annual caps in respect of the Transactions for the financial years ending 31 December 2019 and 31 December 2020 and the financial period ending 30 June 2021 are shown below:

Transactions	Proposed annual caps <i>(Note)</i>		
	for the financial year ending 31 December 2019 <i>(HK\$ million)</i>	for the financial year ending 31 December 2020 <i>(HK\$ million)</i>	for the six months ending 30 June 2021 <i>(HK\$ million)</i>
(1) Service transactions (Category 1 Transactions)			
(a) Income received and/or to be received from service transactions provided to member(s) of the HSCL Group (including fees and commissions received and/or to be received from the HSCL Group in respect of the underwriting by the Group)	630	665	380
(b) Expenses incurred and/or to be incurred for service transactions provided by member(s) of the HSCL Group (including fees and commissions paid and/or to be paid by the Group in respect of the underwriting by the HSCL Group)	300	330	190
(2) Investment and financial transactions (Category 2 Transactions, but excluding underwriting commitments which are set out in (3) below)			
(a) Sum received and/or to be received from the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	33,000	36,000	22,000
(b) Sum paid and/or to be paid to the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	33,000	36,000	22,000
(c) Transaction amount attributable to principal-to-principal transactions between the Group and the HSCL Group	57,000	60,000	31,500

LETTER FROM THE BOARD

	Proposed annual caps <i>(Note)</i>		
	for the financial year ending 31 December 2019 <i>(HK\$ million)</i>	for the financial year ending 31 December 2020 <i>(HK\$ million)</i>	for the six months ending 30 June 2021 <i>(HK\$ million)</i>
Transactions			
(3) Underwriting commitments			
(a) Amount of underwriting commitments to be provided by the Group	11,400	12,000	11,310
(b) Amount of underwriting commitments to be provided by the HSCL Group	5,000	6,000	4,000

Note: For the avoidance of doubt, when calculating the utilization of the annual cap, if the nature of an individual transaction is covered by more than one category of transaction, such transaction amount may be included in more than one category of the annual cap. However, if any transaction amount which has been included in one category of the annual caps, then such amount will not be counted towards other categories.

The historical utilization of the annual caps in respect of the Previous Transactions simply serves as the starting point in setting the annual caps for the Transactions and the respective proposed annual caps were determined primarily with reference to (a) the proposed annual or annualized amount of payment in respect of the transactions to be conducted between member(s) of the Group and member(s) of the HSCL Group; (b) the cross-border merger and acquisition trends in Hong Kong and overseas and the potential impact of relevant state and cross-border policies, including the process of Renminbi internationalization, Shanghai-Hong Kong stock-connect, free-trade zones implementation, the expected boost in international trade brought by the Belt and Road Initiative and more favourable QFII, QDII and RQFII and global economic factors; and (c) for transaction flexibility, a reasonable buffer to cater for unexpected business growth, inflation and currency fluctuations and on the principal assumptions that, during the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group and the HSCL Group.

Moreover, the annual caps (i) for the income to be received under Category 1 Transactions were determined based on, inter alia, QDII quota, the distribution of the HSCL Group's instruments by the Group, expansion of services and/or client base of both the Group and the HSCL Group, the issuance of instrument and products by the Group and the HSCL Group, the scale, operations of the businesses and the capability of the Group; and (ii) for the expenses to be incurred under Category 1 Transactions were determined based on, inter alia, QFII quota, the distribution of the Group's instruments by the HSCL Group, expansion of services and/or client base of both the Group and the HSCL Group, the issuance of instrument and products by the Group and the HSCL Group, the scale, operations of the businesses and capability of the Group.

Further, the annual caps (i) for the sums to be received under Category 2 Transactions and (ii) for the sums to be paid under Category 2 Transactions were determined based on, inter alia, the expected increase of similar transactions between the Group and the HSCL Group due to cooperation on cross-border business development, transaction flexibility (a reasonable buffer to cater for unexpected business growth), the estimated number of transactions, the size of each transactions, the average yield of similar transactions or the average interest rates previously adopted, the Group's possible role of liquidity provider and the scale, operations of the businesses and the capability of the Group.

LETTER FROM THE BOARD

INTERNAL CONTROL MEASURES

In order to ensure that the Transactions contemplated under the Master Agreement are conducted on normal commercial terms or better and in accordance with the pricing policy of the Group and will not be prejudicial to the interests of the Company and its shareholders as a whole, the Group has adopted the following measures:

- (i) the relevant business unit of the Group will periodically observe the market conditions and monitor the prevailing market prices including the pricings of contemporaneous transactions with independent third parties in respect of similar transactions in the same or nearby area in the ordinary course of business of the Group. In addition, the relevant personnel of the Group would compare other contemporaneous transactions or quotations for similar transactions with independent third parties and ensure that the terms offered to or by the HSCL Group are no less favourable to the Group than those available to or from independent third parties;
- (ii) the external auditor of the Company will conduct an annual audit each year, and issues its opinions as to the implementation of the Transactions by the Group and whether the amounts incurred by the Transactions are within the annual caps during the year pursuant to the requirements of Hong Kong Listing Rules;
- (iii) the internal auditor will conduct annual review of the Transactions and report its findings to the Audit Committee of the Company.

The Board is of the view that the above methods and procedures can ensure that the pricing and other contract terms for the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and will be conducted on terms no less favourable to the Group than the terms available to or from independent third parties for the Transactions.

LISTING RULES IMPLICATIONS

HSCL is the holding company of HTIH, a controlling shareholder of the Company, and therefore HSCL is a connected person of the Company and the Transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratios based on the proposed annual caps in respect of the Transactions exceeds 5%, the Transactions and the proposed annual caps in respect thereof are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, as the highest of the applicable percentage ratios in respect of the financial assistance transactions under the Master Agreement is more than 25%, the financial assistance transactions under the Master Agreement also constitute major transactions of the Company under Chapter 14 of the Listing Rules and are therefore subject to the announcement, circular and shareholders' approval requirements thereunder.

LETTER FROM THE BOARD

An Independent Board Committee (comprising all independent non-executive Directors) has been appointed to advise the Independent Shareholders as to whether the terms of the Master Agreement are fair and reasonable, and whether the Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendation of the independent financial adviser. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

The principal business of the Group comprises wealth management, corporate finance, asset management, institutional clients service and investment.

HSCL is a joint stock limited company incorporated in the PRC with limited liability which is listed on the Main Board of the Stock Exchange (stock code: 6837) and Shanghai Stock Exchange (stock code: 600837). HSCL is a renowned and major securities firm in the PRC, which is principally engaged in wealth management, investment banking, asset management, trading and institutional client services, and financial leasing.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 19 to 20 of this circular which contains its recommendation to the Independent Shareholders concerning the terms of the Master Agreement and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser set out on pages 21 to 43 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Master Agreement, the transactions contemplated thereunder and the principal factors and reasons considered by it in formulating its advice.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Master Agreement to be fair and reasonable in so far as the Company and the Independent Shareholders are concerned. The Independent Board Committee also considers that the Master Agreement was entered into on normal commercial terms and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution relating to the Master Agreement, the transactions contemplated thereunder and the proposed annual caps which will be proposed at the SGM.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining shareholders' right to attend and vote at the SGM, the register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the SGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 May 2019.

LETTER FROM THE BOARD

SGM

A notice convening the SGM to be held at Executive Meeting Room A, 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong on Friday, 24 May 2019 at 11 a.m. (or so soon thereafter as the annual general meeting of the Shareholders convened to be held at 10:30 a.m. on the same date and at the same place shall have been concluded or adjourned) is set out on pages N-1 to N-2 of this circular. At the SGM, an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, to approve the Master Agreement, the transactions contemplated thereunder and the proposed annual caps.

In accordance with the Listing Rules, any connected person of the Company and any Shareholder with a material interest in the Master Agreement and the transactions contemplated thereunder and its close associate(s) must abstain from voting on the resolution in respect of the continuing connected transactions at the SGM. HTIH, a wholly-owned subsidiary of HSCL, controlled or was entitled to exercise control over the voting right in respect of 3,681,633,864 Shares, representing approximately 63.56% shareholding in the Company as at the Latest Practicable Date, will abstain from voting on the ordinary resolution to approve the Master Agreement, the transactions contemplated thereunder and the proposed annual caps at the SGM. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date, save as disclosed above, none of the other Shareholders will be required to abstain from voting at the SGM to approve the Master Agreement, the transactions contemplated thereunder and the proposed annual caps.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any resolution put to the vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolution set out in the notice of SGM will be taken by way of poll.

On a poll, every Shareholder presents in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorized representative, shall have one vote for every fully paid share of which he/she/it is the holder. A Shareholder entitled to more than one vote need not use all his/her/its votes or cast all the votes he/she/it uses in the same way.

After the conclusion of the SGM, the poll results will be published on the respective websites of the Stock Exchange and the Company under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular and the notice of the SGM.

Yours faithfully,
By order of the Board
Haitong International Securities Group Limited
LIN Yong
Deputy Chairman and Chief Executive Officer



HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

海通國際證券集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 665)

24 April 2019

To the Independent Shareholders

Dear Sirs or Madams

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 24 April 2019 of the Company (the “**Circular**”) of which this letter forms part. Terms herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Master Agreement and to advise the Independent Shareholders in respect of the Master Agreement and the transactions contemplated thereunder (including the proposed annual caps).

Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Master Agreement and the transactions contemplated thereunder (including the proposed annual caps).

We wish to draw your attention to the letter from the Board set out on pages 5 to 18 of the Circular which contains, among others, information on the Master Agreement, as well as the letter from the Independent Financial Adviser set out on pages 21 to 43 of the Circular which contains its advice in respect of the terms of the Master Agreement and the transactions contemplated thereunder (including the proposed annual caps).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE
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Having taken into account the advice of Somerley, we consider that the entering into of the Master Agreement is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the terms of the Master Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Master Agreement and the transactions contemplated thereunder (including the proposed annual caps).

Yours faithfully
Independent Board Committee

TSUI Hing Chuen William
WEI Kuo-chiang
LIU Yan

LAU Wai Piu
WAN Kam To

Independent Non-executive Directors

LETTER FROM INDEPENDENT FINANCIAL ADVISER

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



SOMERLEY CAPITAL LIMITED

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

24 April 2019

*To: the Independent Board Committee and the Independent Shareholders of
Haitong International Securities Group Limited*

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 relation to the Transactions contemplated under the Master Agreement entered into between the Company and HSCL. Details of the terms of the Transactions and the proposed annual caps (the “**Annual Caps**”) are set out in the letter from the Board contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 24 April 2019, of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

HTIH, the controlling shareholder of the Company, is a wholly-owned subsidiary of HSCL. HSCL is therefore a connected person of the Company. The Transactions are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group. Therefore, the entering into of the Master Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratios based on the Annual Caps exceeds 5%, the Transactions and the Annual Caps are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, as the highest of the applicable percentage ratios in respect of the financial assistance transactions under the Master Agreement is more than 25%, the financial assistance transactions under the Master Agreement also constitute major transactions of the Company under Chapter 14 of the Listing Rules and are therefore subject to the announcement, circular and shareholders' approval requirements

LETTER FROM INDEPENDENT FINANCIAL ADVISER

thereunder. HTIH will abstain from voting at the SGM in respect of the resolution approving the Master Agreement, the transactions contemplated thereunder and the Annual Caps. For the avoidance of doubt and in the circumstances, it is not part of our assignment to advise the financial assistance transactions under the Master Agreement, which constitute major transactions under Chapter 14 of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu, Mr. WEI Kuo-chiang, Mr. WAN Kam To and Ms. LIU Yan, has been established to advise the Independent Shareholders with regard to the terms of the Master Agreement, the Transactions and the Annual Caps. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, HSCL, HTIH or any of their respective core connected persons, close associates or associates, and accordingly, are considered eligible to give independent advice on the terms of the Master Agreement, the Transactions and the Annual Caps. Apart from normal professional fees payable to us in connection with this or similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, HSCL, HTIH or any of their respective core connected persons, close associates or associates.

In formulating our opinion, we have reviewed, among other things, the Master Agreement and the information contained in the Circular, the annual results announcement of the Company for the year ended 31 December 2018 (the “**2018 Annual Results Announcement**”), the annual reports of the Company for the years ended 31 December 2016 and 31 December 2017 (the “**2016 Annual Report**” and the “**2017 Annual Report**”, respectively). We have also discussed with and reviewed the information provided by the management of the Group regarding the businesses of the Group.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Transactions and the Annual Caps, we have taken into account the following principal factors and reasons:

1. Background information of the Company and HSCL

The Company is an exempted company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 665). The Group is principally engaged in wealth management, corporate finance, asset management, institutional clients service and investment.

HSCL is a joint stock limited company incorporated in the PRC with limited liability, whose overseas listed foreign invested shares are listed on the Main Board of the Stock Exchange (stock code: 6837) and domestic listed shares are listed on the Shanghai Stock Exchange (stock code: 600837), and the holding company of HTIH. HSCL is principally engaged in wealth management, investment banking, asset management, trading and institutional client services, and financial leasing.

2. Business and financial information of the Company

The Group's business segments are divided into five main categories, namely, wealth management, corporate finance, asset management, institutional clients and investment. Set out below a brief summary of each segment's function.

For wealth management segment, the Group is engaged in provision of a full range of financial services and investment solutions to retail and high-net-worth clients. In addition, the Group had restructured the segment from traditional brokerage to wealth management with a wide variety of financial services and investment solutions offering.

For corporate finance segment, the Group is engaged in provision of sponsoring and underwriting service to corporate clients for their fund-raising activities in equity and debt capital markets, and also engages in provision of advisory service and financing solutions to corporate clients for their corporate actions.

For asset management segment, the Group is engaged in provision of investment management services on diversified and comprehensive investment products including public funds, private funds, mandatory provident funds and discretionary accounts to individual, corporate and institutional clients.

For institutional clients segment, the Group is engaged in provision of cash equities sales and trading, prime brokerage, stock borrowing and lending, equity research, investment and financing solutions, and issuance and market making for a wide variety of financial instruments in major financial centers across the world for global institutional clients.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

For investment segment, the Group is engaged in investing in investment funds and private equity investments.

Set out in the table below is a summary of the Group's financial performance for the three years ended 31 December 2018, 2017 and 2016 (the “**Review Period**”) and the breakdown of revenue by business segments for the Review Period.

	For the year ended 31 December		
	2018	2017	2016
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Revenue	6,328	7,195	5,351
Profit for the year attributable to owners of the Company	1,023	3,029	1,680
Segment revenue			
Wealth management	2,141	2,193	2,019
Corporate finance	1,603	1,846	1,278
Asset management	278	329	176
Institutional clients	2,371	1,642	1,498
Investment	(65)	1,185	380
Total	6,328	7,195	5,351

Revenue of the Group increased by approximately 34.5% from approximately HK\$5,351 million for the year ended 31 December 2016 to approximately HK\$7,195 million for the year ended 31 December 2017. The Group also recorded growth in profit attributable to owners of the Company to approximately HK\$3,029 million for the year ended 31 December 2017, representing an increase of approximately 80.3% compared with that for the year ended 31 December 2016. According to the 2017 Annual Report, the improvement in financial performance was primarily due to the organic growth of the Group, synergic effect by the Group's different business segments and economies of scale and a prudent cost control exercised by the Group.

Revenue of the Group dropped by approximately 12.1% from approximately HK\$7,195 million for the year ended 31 December 2017 to approximately HK\$6,328 million for the year ended 31 December 2018 and it has negatively impacted on the profit attributable to owners of the Company, resulting in a drop of approximately 66.2% from approximately HK\$3,029 million for the year ended 31 December 2017 to approximately HK\$1,023 million for the year ended 31 December 2018. According to the 2018 Annual Results Announcement, financial performance of the Group was adversely affected by losses made by the investment department and the increase in other expenses. Nevertheless, the Group's commission and fee income grew by approximately 6% to approximately HK\$2,130 million and interest income rose by approximately 20% to approximately HK\$2,576 million due to reallocation of asset and the stable rise of interest yield.

3. Reasons for and benefits of entering into the Master Agreement

(A) Relationship with the HSCL Group

As set out in the letter from the Board contained in the Circular, the Transactions are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group, the entering into of the Master Agreement will enhance the Group's ability to conduct the Transactions, some of which are time-sensitive in nature, without the need for the Company to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for entering into the Transactions. The Transactions are expected to fully utilise the existing business setup between the Group and the HSCL Group and lower the Group's operating costs and provide an additional source of revenue for the Group. In addition, it is expected that the Transactions would bring synergies to the Group and the HSCL Group. It is also considered that the Transactions would secure a long-term and reliable business association between the Group and the HSCL Group.

(B) Prospects of the Group and the HSCL Group

Financial performance of the Group is largely correlated to the economic conditions, which are then in turn considerably affected by various state policies implemented by the PRC government. In light of above, we have considered the potential effects from the implementation and changes to the policies as follows:

(i) QFII and RQFII Schemes

In 2002, the QFII Scheme was introduced, a transitional arrangement that allows institutional investors who meet certain qualification to invest in a limited scope of cross-border securities products, in the context of incomplete free flow of capital accounts. Similarly, the RQFII Scheme was initiated in late 2011, allowing the use of RMB funds raised in Hong Kong, or offshore RMB, by the subsidiaries of domestic fund management companies and

securities companies in Hong Kong to invest in the PRC domestic securities market. The QFII is one of the state policies implemented to internationalise the RMB, allowing the global institutional investors to get access to the RMB denominated capital market and the State Administration of Foreign Exchange had further raised the QFII quota to US\$300 billion on 14 January 2019. According to the State Administration of Foreign Exchange, the total number of licenses granted for QFII and RQFII reached 289 and 210 respectively as at 27 March 2019.

Over the years, various relaxation revisions had been made to QFII and RQFII schemes, including loosening of restrictions of capital transfer, simplified quota examination and enlargement of the scope of QFII and RQFII's permitted investments, to encourage the participation of such schemes and signifies the progress of RMB internationalisation. As at the Latest Practicable Date, the Group has been granted QFII and RQFII quota of US\$100 million and RMB10.7 billion quota respectively.

(ii) QDII Scheme

As part of the PRC government's transitional arrangement to granting and progressively opening its capital market, the QDII Scheme was introduced in 2002 to allow certain qualified financial institutions to invest in offshore markets in financial products such as securities and bonds. As at 27 March 2019, the total number of QDII and their approved investment quota were 152 and approximately US\$103.2 billion respectively.

(iii) Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

In 2014, Securities and Futures Commission in Hong Kong and China Securities Regulatory Commission made a joint announcement to approve the Shanghai-Hong Kong stock-connect and the Shenzhen-Hong Kong stock-connect, which was eventually launched in December 2016. The introduction of cross-border trading was designed to allow investors to gain mutual market access between Hong Kong and the Mainland China and to uplift the liquidity of the stock markets in the two regions. As of the Latest Practicable Date, the southbound daily quota is set at RMB42 billion for each of Shanghai- and Shenzhen-Hong Kong stock-connect.

(iv) Free-trade zones

Free trade zones in China are specific class of special economic zones introduced by the PRC government to designate a region for a designated purpose, such as international trading and financial hub, and act as blueprint to further reform throughout China. Typically, free trade zones in China would feature favourable policies such as lower taxation and uplift of foreign exchange restriction. Currently, China has over 10 free trade zones in different regions and it aims to further attract foreign companies and investors to enter into the PRC market by enjoying the aforesaid benefits.

With consideration of the abovementioned policies, the management of the Group expects the demand for fund raising, cross-border investment, financial services and customer base of the Group and HSCL Group would continue to grow, and thereby providing more opportunities and might increase the volume of the Transactions contemplated under the Master Agreement.

Taking into account the principal activities of the Group and the depth and breadth of the business operation of the HSCL Group, as the counterparty to the Master Agreement, in the PRC stock market, we consider that the entering into of the Master Agreement is in the ordinary and usual course of the business of the Group and is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Master Agreement

(A) Background

Pursuant to the Previous Master Services Agreement entered into between the Company and HSCL on 14 March 2016, the Company and HSCL agreed that member(s) of the Group and member(s) of the HSCL Group would provide to each other the services contemplated thereunder in accordance with the terms set forth in the Previous Master Services Agreement from the effective date of 1 January 2016. Due to the expiry of the Previous Master Services Agreement on 31 December 2018 as well as the Company and HSCL's intention to renew the continuing connected transactions set forth under the Previous Master Services Agreement, the Company and HSCL entered into the Master Agreement on 15 February 2019 (after trading hours), which would take effect from 1 January 2019 and will expire on 30 June 2021, subject to compliance with all relevant Listing Rules requirements by each of the Company and HSCL.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Under the Master Agreement, the Company and HSCL have both agreed that each of them will, and will procure member(s) of the Group and member(s) of the HSCL Group (to the extent practicable) to provide the services as outlined in the Master Agreement to member(s) of the HSCL Group or member(s) of the Group (as the case may be) during the period from 1 January 2019 to 30 June 2021.

(B) Transactions contemplated under the Master Agreement

The services (the scope of which may be amended from time to time upon agreement in writing between the Company and HSCL, but subject to, if applicable, compliance by the Company with all relevant requirements under the Listing Rules) under the Master Agreement (the “**Services**”) include (i) brokerage transactions; (ii) investment management and advisory services transactions; (iii) business and/or operational support, referral, global research and/or other miscellaneous services transactions; (iv) corporate finance advisory and services (items (i) to (iv) are, collectively, the “**Category 1 Transactions**”); (v) fund investment, financial assistance and securities lending; (vi) principal-to-principal transactions; and (vii) underwriting (items (v) to (vii) are, collectively, the “**Category 2 Transactions**”).

(C) Pricing policy

According to the pricing policy of the Company and as stated in the letter from the Board contained in the Circular, terms and pricing mechanism of the transactions under each specific agreement shall be fair and reasonable and negotiated on an arm’s length basis within their respective ordinary and usual course of business, which, (a) in respect of the services provided by the HSCL Group to the Group, shall be no more favourable to the HSCL Group than the pricing and terms provided by the HSCL Group to independent third parties for similar (including similar nature) transactions, and no less favourable to the Group than the pricing and terms provided to the Group by, or obtained by the Group from, independent third parties for similar (including similar nature) transactions; and (b) in respect of the services provided by the Group to the HSCL Group, shall be no less favourable to the Group than the pricing and terms provided by the Group to independent third parties for similar (including similar nature) transactions, and no more favourable to the HSCL Group than the pricing and terms provided to the HSCL Group by, or obtained by the HSCL Group from, independent third parties for similar (including similar nature) transactions.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Furthermore, pricing and settlement method for the provision of each of the Services to be rendered by the Group to the HSCL Group is based on the same pricing standard applicable to all of the Group's clients and therefore the amounts to be charged by the Group against the HSCL Group will be based on the same scale as those charged against the independent third parties by the Group for similar transactions. By the same token, the Services to be rendered by the HSCL Group to the Group adopts a similar principle of which the respective services under the Category 1 Transactions and the Category 2 Transactions will follow the pricing mechanisms as below:

- (i) *Brokerage transactions:* the commission/distribution fees will be determined with reference to prevailing market rates for distribution of similar products by banks and financial institutions estimated to be ranging from 0.01% to 1.00%, and for trading in the Shanghai B Share and Shenzhen B Share markets, the commission/distribution fee is normally in the region of 0.07%, on par with the overall rates and fees commonly charged by independent third party brokers.
- (ii) *Investment management and advisory services transactions:* the management, performance and/or advisory fees payable by the Group will be determined with reference to the expected setup and operation costs as a baseline plus a margin based on the overall size, scope and period of the investment to be managed, rate of return of the project, QFII/RQFII available quota, setup or operating costs, business strategy direction and future cooperation potential, and advisory scope, as is appropriate, for comparable transactions in the market.
- (iii) *Business/operational support, referral, global research and other services transactions:* the relevant fees payable by the Group will be determined with reference to the business of the entity involved in the transaction, mode of services, the size of the transactions, time and method of determining the transactions and the contracting parties' contribution to the transactions.
- (iv) *Corporate finance advisory and services:* the relevant fees payable by the Group will be determined with reference to the size, complexity and timing of subject transactions, the expected work and resources involved, and the then prevailing market rates for comparable transactions in the market.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- (v) *Fund investment, financial assistance and securities lending:* (1) the fees and investment amounts for fund investment payable by the Group will be determined with reference to the size and structure of the investment, potential investment returns and timing and availability of funds, subject to a combination of cost based, market based and valuation based approach to achieve a positive net margin; (2) the terms of the financial assistance (not including margin financing) transactions conducted between the Group and the HSCL Group will be based on normal commercial terms, with interest rates to be paid by the Group calculated with reference to, the currency-specific HIBOR/LIBOR during the lending period plus approximately 1.25% to 1.275%, and for loans in Renminbi, with reference to the market rates offered by commercial banks, such as the Bank of China Limited, for the relevant lending period and a spread incorporating the average external funding cost of the Group on the basis of an unsecured loan; (3) the margin-financing transactions will be conducted with the interest rates determined with reference to standard reference rates such as HSBC Prime Rate applicable for different tiers of stock collaterals.
- (vi) *Principal-to-principal transactions:* the financial products, including any over-the-counter (OTC) derivative products, expected to be acquired by the Group from HSCL Group will be acquired on the same terms which will equally apply to all independent third party purchasers of similar products.
- (vii) *Underwriting:* the underwriting commitment by the Group will be determined through arm's length negotiations by the parties with reference to the Group's then financial capacity and resources allocated for such purpose, size of the transaction, risk tolerance level and market conditions, where applicable.

Payments for the Category 1 Transactions and the Category 2 Transactions will be settled in cash by way of deducting from the proceeds of the transactions or portfolio assets (as the case may be) or paid upon completion of the transaction separately or in accordance with a schedule as agreed between the parties.

(D) Internal control measures

In order to ensure the Group to follow the pricing policy as mentioned above, the relevant business unit of the Group will periodically observe the market conditions and monitor the prevailing market prices including the pricings of contemporaneous transactions with independent third parties in respect of similar transactions in the same or nearby area in the ordinary course of business of the Group. Moreover, since the Services to be provided to and by the Group are effectively the Group's principal day-to-day operation, hence it will have sufficient information on comparable terms and quotations to ensure the terms offered to or by the HSCL Group are no less favourable to the Group than those offered to or by independent third parties.

Based on the above and the review of the Company's pricing policy, we noted that the aforementioned pricing mechanism of the Category 1 Transactions and the Category 2 Transactions has been set out in both the appendix to the Master Agreement and the Company's pricing policy. Such internal control measures are applicable to the entire range of products and services provided by the Group through the business units as mentioned above. In addition, we further noted from the pricing policy, as an integral part of established risk management policy of the Company, independent price verification on various trading and investment products, which give rise to market expose, is conducted on a monthly basis for reporting to risk management department of the Company. Putting in place an additional layer of internal control measures to ensure the terms of the relevant transactions between the Group and the HSCL Group to be no less favourable than those provided to or obtained from independent third parties for comparable transactions. In addition, auditor of the Company was engaged to report on the continuing connected transactions of the Company annually according to Rule 14A.56 of the Listing Rules, pursuant to which the Company's auditor has issued unqualified letter containing its findings and conclusions in respect of the continuing connected transactions of the Company in the 2017 Annual Report.

In consideration of the above in totality, we concur with the management of the Group that the pricing mechanism adopted for each transaction under the Master Agreement is sufficient to ensure the Services will be conducted on normal commercial terms and shall safeguard the interests of the Shareholders.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

5. The Annual Caps

Set out below are the Annual Caps in respect of the Transactions for the two years ending 31 December 2019, 2020 and for the six months ending 30 June 2021 (the “Period”) as shown in the three segmental divisions:

		Annual Caps (Note)		
		For the year ending 31 December 2019 (HK\$ million)	For the year ending 31 December 2020 (HK\$ million)	For the six months ending 30 June 2021 (HK\$ million)
(A)	Service transactions (The Category 1 Transactions)			
(1)	Income received and/or to be received from service transactions provided to member(s) of the HSCL Group (including fees and commissions received and/or to be received from the HSCL Group in respect of the underwriting by the Group)	630	665	380
(2)	Expenses incurred and/or to be incurred for service transactions provided by member(s) of the HSCL Group (including fees and commissions paid and/or to be paid by the Group in respect of the underwriting by the HSCL Group)	300	330	190
(B)	Investment and financial transactions (The Category 2 Transactions, but excluding underwriting commitments which are set out in (C) below)			
(1)	Sum received and/or to be received from the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	33,000	36,000	22,000
(2)	Sum paid and/or to be paid to the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	33,000	36,000	22,000
(3)	Transaction amount attributable to principal-to-principal transactions between the Group and the HSCL Group	57,000	60,000	31,500

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		Annual Caps (<i>Note</i>)		
		For the year ending 31 December 2019 (HK\$ million)	For the year ending 31 December 2020 (HK\$ million)	For the six months ending 30 June 2021 (HK\$ million)
(C)	Underwriting commitments			
(1)	Amount of underwriting commitments to be provided by the Group	11,400	12,000	11,310
(2)	Amount of underwriting commitments to be provided by the HSCL Group	5,000	6,000	4,000

Note: For the avoidance of doubt, when calculating the utilisation of the annual cap, if the nature of an individual transaction is covered by more than one category of transaction, such transaction amount may be included in more than one category of the annual cap. However, if any transaction amount which has been included in one category of the annual caps, then such amount will not be counted towards other categories.

As set out in the letter from the Board contained in the Circular, the Annual Caps were determined primarily with reference to (i) the proposed annual or annualised amount of payment in respect of the transactions to be conducted between member(s) of the Group and member(s) of the HSCL Group; (ii) the cross-border merger and acquisition trends in Hong Kong and overseas and the potential impact of relevant state and cross-border policies, including the process of Renminbi internationalisation, Shanghai-Hong Kong stock-connect, free-trade zones implementation, the expected boost in international trade brought by the Belt and Road Initiative and more favourable QFII, QDII and RQFII and global economic factors; and (iii) for transaction flexibility, a reasonable buffer to cater for unexpected business growth, inflation and currency fluctuations and on the principal assumptions that, during the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group and the HSCL Group.

We set out below our review on fairness and reasonableness of the Annual Caps.

(A) The Category 1 Transactions

As mentioned above, the Category 1 Transactions comprise (i) brokerage transactions; (ii) investment management and advisory services transactions; (iii) business and/or operational support, referral, global research and/or other miscellaneous services transactions; and (iv) corporate finance advisory and services.

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(1) Income under the Category 1 Transactions

As stated in the letter from the Board contained in the Circular, income under the Annual Caps in relation to the Category 1 Transactions were determined based on, inter alia, QDII quota, the distribution of the HSCL Group's instruments by the Group, expansion of services and/or client base of both the Group and the HSCL Group, the issuance of instrument and products by the Group and the HSCL Group, the scale, operations of the businesses and the capability of the Group.

The income under the Annual Caps from investment management and advisory services transactions, business and/or operational support, global research and/or other miscellaneous services (excluding the referral service) and corporate finance advisory and services together amounted to not less than approximately 82.5% of total income under the Annual Caps in relation to the Category 1 Transactions. In light of this, we have reviewed the sub-categories individually to assess the fairness and reasonableness of income under the Annual Caps in relation to the Category 1 Transactions:

- (i) Investment management and advisory services transactions — services to be provided to member(s) of the HSCL Group

Pursuant to the Master Agreement, the Group will provide the HSCL Group with investment management and advisory services, including but not limited to the provision of financial analysis, asset allocation and various kinds of ancillary consultancy, investment management and advisory services. As advised by the management of the Group, this sub-category of the Annual Caps was primarily determined based on the HSCL Group's granted trading quota under the QDII Scheme which amounted to US\$800 million as at 27 March 2019.

- (ii) Business and/or operational support, global research and/or other miscellaneous services (excluding the referral service) — services to be provided to member(s) of the HSCL Group

Pursuant to the Master Agreement, the Group will provide the HSCL Group with (I) business and/or operational support and/or global research services etc. and other miscellaneous services including but not limited to performing as calculation agent and valuation agent, acting as collateral custodian, conducting market research, referring client and/or business between the Group and the HSCL Group for financial services, commercial and corporate finance deals etc.; and (II) research services, including but not limited to preparing industry sector or products reports of Hong Kong, overseas and PRC listed companies, designing products, participating in roadshows, etc..

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As discussed with the management of the Group, the abovementioned sub-category of the Annual Caps represents (I) the total service fee for the implementation of mutual access to the research reports, by the institutional equity department, for their respective customers and internal staff including computing agents and valuation agents who wish to gain access to the information of the PRC and overseas markets, the business and/or operational support to be provided, such as pre-investment due diligence and investment portfolio evaluation, and the provision of various training services; and (II) the possible private equity investment opportunities which might be jointly invested with the HSCL Group together with the relevant research service ancillary to the private equity investment services. As discussed with the management of the Group, the abovementioned services/ transactions are mostly ad-hoc in nature and the amounts of such transactions are generally large.

- (iii) Corporate finance advisory and services — services to be provided to member(s) of the HSCL Group

Pursuant to the Master Agreement, the Group will provide the HSCL Group with corporate finance advisory services, including but not limited to advising on compliance with relevant laws and regulations, acting as placing agent, listing agent, bookrunner, sponsor, global co-ordinator and financial adviser etc., excluding underwriting commitment.

The abovementioned sub-category of the Annual Caps represents (I) the underwriting commission income to be derived from the potential and ongoing primary/secondary fund raising exercises of HSCL by way of the issuance of new H shares and/or bonds; (II) compliance advisory fee income to be derived from the ongoing compliance advisory services provided; and (III) potential commission fees from underwriting bonds and structure financial products to be offered by the HSCL Group.

Based on the above, we are of the view that the Annual Caps in relation to income under the Category 1 Transactions to be reasonable and justifiable.

(2) Expense under the Category 1 Transactions

As stated in the letter from the Board contained in the Circular, expenses under the Annual Caps in relation to the Category 1 Transactions were determined based on, inter alia, QFII quota, the distribution of the Group's instruments by the HSCL Group, expansion of services and/or client base of both the Group and the HSCL Group, the issuance of instrument and products by the Group and the HSCL Group, the scale, operations of the businesses and the capability of the Group.

The expenses under the Annual Caps from brokerage transactions and referral service (under business and/or operational support, referral, global research and/or other miscellaneous services) together amounted to not less than approximately 73.8% of total expenses under the Annual Caps in relation to the Category 1 Transactions. In light of this, we have reviewed the sub-categories individually to assess the fairness and reasonableness of the expenses under Annual Caps in relation to the Category 1 Transactions:

- (i) Brokerage transactions — services to be provided by member(s) of the HSCL Group

Pursuant to the Master Agreement, the HSCL Group will provide the Group with B shares brokerage services and its ancillary services for dealing in financial products (including back-to-back transactions) that are permitted by PRC and overseas regulators, and including proprietary trading of member(s) of the counterparty's group and placing agency services.

As discussed with the management of the Group, the aforementioned sub-category of the Annual Caps represents (I) the total estimated brokerage fee for trading by various departments such as asset management department, wealth management department and equity derivatives department; (II) the potential increase in demand for the PRC equity securities brokerage services due to the various stimulating policies as mentioned in sub-section headed “(B) Prospects of the Group and the HSCL Group” above, which might in turn lead to the increase in the total traded value of PRC equity securities; and (III) the estimated annual growth rate in the traded value of PRC equity securities during the Period. In relation to the above, we have reviewed the historical trading volume for B shares, the monthly average crude oil futures contracts and iron ore futures contracts traded on Shanghai International Energy Exchange and Dalian Commodity Exchange and funds managed by the Group including the size of asset under management together with the expected brokerage rates and considered the possible impact to the trading

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volume due to the implementation of policies as discussed in the sub-section headed “(B) Prospects of the Group and the HSCL Group” above.

- (ii) Referral service (under business/operational support, referral, global research and other services) — services to be provided by member(s) of the HSCL Group

Pursuant to the Master Agreement, the HSCL Group and the Group may further deepen their collaboration by referring clients to each other with an aim to broaden the customer base. As advised by the management of the Group, the Group filed an application with the China Securities Regulatory Commission for establishing a fund eligible for north-bound trading under the Mutual Recognition of Funds Scheme in 2016 and, in addition, three other north-bound trading fund applications were made in 2018. In light of this, the management of the Group is of the view that in the event the relevant applications are approved, the HSCL Group shall act as the Group’s important broker to sell such fund related products to customers in the PRC through the HSCL Group’s sizeable customer base. In addition, they also take the view that (I) the current trend of increasing number of funds being set up, and the recent business development plan of the Group and the HSCL Group will remain unchanged during the Period; and (II) the market conditions, operation and business environment will remain stable and there will not be any adverse change in government policies, laws and regulations which may materially affect the business of the Group and/or the HSCL Group.

We have reviewed the relevant calculation in relation to the estimated referral commission based on the estimated commission rate, annual management fee of the fund, the expected total asset size of the four funds amounting up to approximately HK\$2 billion.

Based on the above, we are of the view that the Annual Caps in relation to expenses under the Category 1 Transactions to be reasonable and justifiable.

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- (B) *The Category 2 Transactions (for the purpose of this sub-section, excluding underwriting commitments which will be separately discussed in the sub-section headed “(C) Category 2 Transactions — underwriting commitments” below).*

The Category 2 Transactions comprise entirely (i) fund investment, financial assistance and securities lending; (ii) principal-to-principal transactions; and (iii) underwriting, for both the sums to be received from and to be paid to the HSCL Group. In light of this, we have reviewed the sub-categories individually to assess the fairness and reasonableness of both the income and expenses under the Annual Caps in relation to the Category 2 Transactions:

- (1) The sums to be received under the Category 2 Transactions

As stated in the letter from the Board contained in the Circular, the sum to be received under the Annual Caps in relation to the Category 2 Transactions were determined based on, inter alia, the expected increase of similar transactions between the Group and the HSCL Group due to cooperation on cross-border business development, transaction flexibility (a reasonable buffer to cater for unexpected business growth), the estimated number of transactions, the size of each transaction, the average yield of similar transactions or the average interest rates previously adopted, the Group’s possible role of liquidity provider and the scale, operations of the businesses and the capability of the Group.

The sums to be received under the Annual Caps in relation to the Category 2 Transactions comprise mostly financial assistance and securities lending. In light of this, we have reviewed the sub-categories individually to assess the fairness and reasonableness of the sums to be received under the Annual Caps for the Category 2 Transactions:

- (i) Financial assistance — services to be provided to member(s) of the HSCL Group

Pursuant to the Master Agreement, the Group may provide financial assistance to the HSCL Group by (I) providing secured or unsecured credits and/or loans; (II) acting as arranger, agent or lead lender of syndicated loans; and (III) subscription of financial products (including in the nature of additional tier-1 bonds or similar quasi-equity instruments).

As advised by the management of the Group, we understand that this sub-category of the Annual Caps was determined primarily with reference to the projected financial assistance to be provided by the HSCL Group on a reciprocal basis, details of which are set out in the sub-paragraph headed “(i) Financial assistance — services to be provided by member(s) of the HSCL Group” below,

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such that both of the Group and the HSCL Group retain the same level of financial flexibility.

- (ii) Securities lending — services to be provided to member(s) of the HSCL Group

Pursuant to the Master Agreement, the Group may provide securities lending services to the HSCL Group and such lent securities will be deposited in an account of the HSCL Group maintained with the Group.

As advised by the management of the Group, we understand that tradings to be carried out by equity derivatives department account for the entire of this sub-category of the Annual Caps, which was determined based on the expected notional amount of new loans and return loans of approximately HK\$600 million, the expected trading frequency of approximately 55 times annually and a reasonable buffer. In light of this, we have reviewed the relevant calculations and noted the expected trading frequency is comparable to the historical trading frequency.

Based on the above, we are of the view that the Annual Caps in relation to the sums to be received under the Category 2 Transactions to be reasonable and justifiable.

- (2) The sums to be paid under the Category 2 Transactions

As stated in the letter from the Board contained in the Circular, the sums to be paid under the Annual Caps in relation to the Category 2 Transactions were determined based on, inter alia, the expected increase of similar transactions between the Group and the HSCL Group due to cooperation on cross-border business development, transaction flexibility (a reasonable buffer to cater for unexpected business growth), the estimated number of transactions, the size of each transaction, the average yield of similar transactions or the average interest rates previously adopted, the Group's possible role of liquidity provider and the scale, operations of the businesses and the capability of the Group.

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The sums to be paid under the Annual Caps in relation to the Category 2 Transactions comprise mostly financial assistance and securities lending. In light of this, we have reviewed the sub-categories individually to assess the fairness and reasonableness of the sums to be paid under the Annual Caps for the Category 2 Transactions:

- (i) Financial assistance — services to be provided by member(s) of the HSCL Group

Pursuant to the Master Agreement, the HSCL Group may provide financial assistance to the Group by (I) providing secured or unsecured credits and/or loans; (II) acting as arranger, agent or lead lender of syndicated loans; and (III) subscription of financial products (including in the nature of additional tier-1 bonds or similar quasi-equity instruments).

As advised by the management of the Group, the Annual Caps in relation to financial assistance was determined with consideration of the Group's medium-term notes and guaranteed bonds of approximately HK\$15 billion that are maturing in 2019 and it is expected that the Group will refinance expiring medium-term notes and guaranteed bonds with principal amounts of not less than RMB20 billion. According to the 2017 Annual Report and the 2016 Annual Report, we also noted that the Group had previously been borrowing from the HSCL Group in the past few years in the form of unsecured Shareholders' loan. In light of this, management of the Group would like to continue to retain such flexibility in obtaining financial assistance from the HSCL Group given their long-term cooperation relationship and the HSCL Group's understanding of the Group's business, which might help the Group in obtaining more accessible financing solution than other financial institutions.

In addition, management of the Company take the view that overseas cross-border merger and acquisition trends, such as countries involved in the Belt and Road Initiative, will become increasingly popular and active, which together with the positive influence of the state policies implemented as discussed above, might increase the need for financing solutions such as leveraged acquisition finance and bridge loans. As such, it is important for the Group to have sufficient financial capabilities to cater for the possible financing demand by their customers on merger and acquisition opportunities. For instance, the Group had completed 40 merger and acquisition transactions amounting to approximately RMB96.9 billion annually during the three years ended 31 December 2018.

- (ii) Securities lending — services to be provided by member(s) of the HSCL Group

Pursuant to the Master Agreement, the HSCL Group may provide securities lending services to the Group and such lent securities will be deposited in an account of the Group maintained with the HSCL Group.

As advised by the management of the Group, we understand that tradings to be carried out by equity derivatives department account for the entire of this sub-category of the Annual Caps, which was determined based on the expected notional amount of new loans and return loans of approximately HK\$900 million, the expected trading frequency of approximately 35 times annually and a reasonable buffer. In light of this, we have reviewed the relevant calculation and noted the expected trading frequency is comparable to the historical trading frequency.

Based on the above, we are of the view that the Annual Caps in relation to the sums to be paid under the Category 2 Transactions to be reasonable and justifiable.

- (3) Principal-to-principal transactions under the Category 2 Transactions

As stated in the letter from the Board contained in the Circular, the principal-to-principal transactions under the Category 2 Transactions are entering into swaps arrangements (which do not belong to any other categories of transactions) and dealing in financial products (including in the nature of additional tier-1 bonds or similar quasi-equity instruments) between the Group and the HSCL Group on a principal-to-principal basis.

As advised by the management of the Group, we understand that the determination of the Annual Caps in relation to principal-to-principal transactions under the Category 2 Transactions is mostly attributable to the estimated total trading volume of structured financial products, in particular the entering into swaps arrangements and dealing of additional tier-1 bonds or similar quasi-equity instruments, by the fixed income, currencies and commodities department. The management of the Group also take into account (i) the possibility of additional business generated by Haitong Securities USA LLC and Haitong (UK) Limited, recent acquisitions by the Company that were completed in February 2018, might further increase trading in structured financial products in the A share and B share markets; (ii) the potential sales or purchase of financial products attributable to the HSCL Group; and (iii) the potential reciprocal investment in long-term bonds of both the Group and the HSCL Group.

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Based on the above, we are of the view that the Annual Caps in relation to principal-to-principal transactions under the Category 2 Transactions to be reasonable and justifiable.

(C) The Category 2 Transactions — underwriting commitments

Pursuant to the Master Agreement, the underwriting services can be provided by the Group to the HSCL Group or vice versa. The Annual Caps in relation to the underwriting commitments to be undertaken by the Group or the HSCL Group were determined based on certain fund-raising exercises of HSCL or vice versa, which might occur in one of the three financial years during the Period. In light of this, we have reviewed the followings to assess the fairness and reasonableness of the underwriting commitments under the Annual Caps for the Category 2 Transactions:

(1) Underwriting commitment to be undertaken by the Group

As discussed with the management of the Group, the abovementioned Annual Caps were determined with reference to the estimated underwriting amount of the potential primary/secondary fund-raising exercises of HSCL amounting up to approximately HK\$3,550 million and bond issuance of HK\$7,850 million, in which the Group will take part in the underwriting of relevant securities.

(2) Underwriting commitment to be undertaken by the HSCL Group

As advised by the management of the Group, the HSCL Group's underwriting commitment was estimated by the management of the Group based on the assumption that the possible issue of bonds by the Group of approximately HK\$5,000 million during the Period.

Furthermore, based on our discussion with the management of the Group, we noted that underwriting commitments are often substantial and have to be undertaken on an-hoc basis. Also, a 10% buffer has been factored into the current respective proposed underwriting commitment under the Annual Caps for the Category 2 Transactions to allow greater flexibility.

Based on the above, we are of the view that the Annual Caps in relation to underwriting commitments under the Category 2 Transactions to be reasonable and justifiable.

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OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider that the entering into of the Master Agreement is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the terms of the Master Agreement, the Transactions and the Annual Caps are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the SGM in relation to the Master Agreement, the Transactions and the Annual Caps.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Danny Cheng
Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three financial years ended 31 December 2016, 2017 and 2018 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.htisec.com):

- (a) annual results announcement of the Company for the year ended 31 December 2018 published on 22 March 2019 (pages 1 to 25);
- (b) annual report of the Company for the year ended 31 December 2017 published on 16 April 2018 (pages 89 to 222); and
- (c) annual report of the Company for the year ended 31 December 2016 published on 6 April 2017 (pages 81 to 220).

2. INDEBTEDNESS STATEMENT

At the close of business on 28 February 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the details of the Group's outstanding borrowings were set out as follows:

	<i>HK\$'000</i>
Convertible bonds – Unsecured and unguaranteed	3,944,645
Non-convertible bonds – Unsecured and guaranteed	10,168,059
Non-convertible notes – Unsecured and unguaranteed	11,115,148
Bank loans – Secured and guaranteed	240,000
Bank loans – Secured and unguaranteed	72,249
Bank loans – Unsecured and guaranteed	500,000
Bank loans – Unsecured and unguaranteed	34,343,687
Lease liabilities	149,630
Total	<u>60,533,418</u>

All the convertible bonds, non-convertible notes and certain bank loans above are unguaranteed. The non-convertible bonds and certain bank loans are guaranteed by the group companies.

In addition, at 28 February 2019, the Group had outstanding authorised but unissued non-convertible notes of aggregate principal amount approximately US\$3,582,395,000.

Bank loans of HK\$240,000,000 were secured by the listed shares held by the Group as security for advances to customers in margin financing with the customers' consent, while bank loans of HK\$72,249,000 were secured by deposits and securities held by the Group in the accounts maintained with the bank.

As at 28 February 2019, the Group, as a lessee, had outstanding unpaid contractual lease payments for the remainder of the relevant lease terms amounting to HK\$149,630,000 in aggregate (excluding contingent rental arrangement). All lease payments were unsecured and unguaranteed.

Save as aforesaid or as otherwise disclosed herein, as at the close of business on 28 February 2019, the Group did not have any outstanding loan capital or debt securities or non-convertible notes which were issued or authorized or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, taking into account the financial resources available to the Group, including the internally generated funds and the available facilities, are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

The Company has been endeavoring to maintain its leadership and make great strides to be an international financial services provider. In early 2018, the Company's acquisition of Haitong Securities USA LLC and Haitong International (UK) Co. Limited from Haitong Bank S.A., perfecting its capability to provide professional financial services to investors world over, heralded a new chapter for its global presence. Despite the challenging market environment in 2018, the Company redefined itself with stability – it kept up the healthy trajectory track for its core businesses and successfully formed a financial services network that centered in New York, London, Singapore and Hong Kong and expanding into major Asia-Pacific capital markets such as Tokyo, Sydney and Mumbai. Haitong International has therefore possessed supreme global investment banking, investment, transaction execution and operating capabilities, and a global monitoring system comparable to European banking regulatory framework has taken shape.

In future, the Company will adhere to its core values – “Courage, Sincerity and Innovation” to maintain its leadership in Hong Kong and to establish global presence. Boasting information technology and insisting on its risk management, the Company will endeavor to capture every market opportunity and become a world-class financial services provider with international competitiveness, systemic importance and brand influence.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange:

Interests in Shares and underlying shares of the Company

Name of Directors	Class of Shares	Number of Shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital
		Personal interests	Family interests	Corporate interests			
Qu Qiuping	share options	–	–	–	500,000 (Note 1)	500,000	0.01%
LIN Yong	Ordinary shares/share options	6,991,067 (Note 2)	–	–	3,409,098 (Note 1)	10,400,165	0.18%
LI Jianguo	Ordinary shares/share options	2,247,372 (Note 3)	–	–	1,205,385 (Note 1)	3,452,757	0.06%
POON Mo Yiu	Ordinary shares/share options	2,653,346 (Note 4)	–	–	1,706,044 (Note 1)	4,359,390	0.08%
SUN Jianfeng	Ordinary shares/share options	1,915,025 (Note 5)	–	–	2,205,685 (Note 1)	4,120,710	0.07%
SUN Tong	Ordinary shares/share options	1,665,156 (Note 6)	–	–	2,005,685 (Note 1)	3,670,841	0.06%
CHENG Chi Ming Brian	Ordinary shares/share options	880,946 (Note 7)	–	–	903,409 (Note 1)	1,784,355	0.03%
WANG Meijuan	Share options	–	–	–	601,973 (Note 1)	601,973	0.01%
ZHANG Xinjun	Ordinary shares/share options	827,762 (Note 8)	–	–	2,005,685 (Note 1)	2,833,447	0.05%

Name of Directors	Class of Shares	Number of Shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital
		Personal interests	Family interests	Corporate interests			
William CHAN	Share options	–	–	–	903,409 (Note 1)	903,409	0.02%
TSUI Hing Chuen William	Ordinary shares/share options	346,712 (Note 9)	–	–	903,409 (Note 1)	1,250,121	0.02%
LAU Wai Piu	Ordinary shares/share options	428,160 (Note 10)	–	–	903,409 (Note 1)	1,331,569	0.02%
WEI Kuo-chiang	Share options	–	–	–	903,409 (Note 1)	903,409	0.02%
WAN Kam To	Share options	–	–	–	300,000 (Note 1)	300,000	0.01%
LIU Yan	Share options	–	–	–	300,000 (Note 1)	300,000	0.01%

Notes:

- As at the Latest Practicable Date, the number of outstanding share options of the relevant Directors granted pursuant to the share option schemes adopted on 8 June 2015, the exercise price and the exercisable period of the share options are as follows:

Name of Director	Date of grant of share options	Number of share options outstanding as at the Latest Practicable Date	Exercise price (HK\$)	Exercisable period
QU Qiuping	1 November 2018	500,000	2.904	28/05/2019 to 31/10/2023
LIN Yong	12 May 2016	805,269	4.645	08/12/2016 to 11/05/2021
	10 November 2017	803,829	5.014	07/06/2018 to 09/11/2022
	1 November 2018	1,800,000	2.904	28/05/2019 to 31/10/2023
LI Jianguo	12 May 2016	603,949	4.645	08/12/2016 to 11/05/2021
	10 November 2017	301,436	5.014	07/06/2018 to 09/11/2022
	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023
POON Mo Yiu	12 May 2016	704,608	4.645	08/12/2016 to 11/05/2021
	10 November 2017	301,436	5.014	07/06/2018 to 09/11/2022
	1 November 2018	700,000	2.904	28/05/2019 to 31/10/2023
SUN Jianfeng	12 May 2016	503,292	4.645	08/12/2016 to 11/05/2021
	10 November 2017	502,393	5.014	07/06/2018 to 09/11/2022
	1 November 2018	1,200,000	2.904	28/05/2019 to 31/10/2023
SUN Tong	12 May 2016	503,292	4.645	08/12/2016 to 11/05/2021
	10 November 2017	502,393	5.014	07/06/2018 to 09/11/2022
	1 November 2018	1,000,000	2.904	28/05/2019 to 31/10/2023
CHENG Chi Ming Brian	12 May 2016	301,973	4.645	08/12/2016 to 11/05/2021
	10 November 2017	301,436	5.014	07/06/2018 to 09/11/2022
	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023

Name of Director	Date of grant of share options	Number of share options outstanding as at the Latest Practicable Date	Exercise price (HK\$)	Exercisable period
WANG Meijuan	12 May 2016	301,973	4.645	08/12/2016 to 11/05/2021
	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023
ZHANG Xinjun	12 May 2016	503,292	4.645	08/12/2016 to 11/05/2021
	10 November 2017	502,393	5.014	07/06/2018 to 09/11/2022
	1 November 2018	1,000,000	2.904	28/05/2019 to 31/10/2023
William CHAN	12 May 2016	301,973	4.645	08/12/2016 to 11/05/2021
	10 November 2017	301,436	5.014	07/06/2018 to 09/11/2022
	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023
TSUI Hing Chuen William	12 May 2016	301,973	4.645	08/12/2016 to 11/05/2021
	10 November 2017	301,436	5.014	07/06/2018 to 09/11/2022
	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023
LAU Wai Piu	12 May 2016	301,973	4.645	08/12/2016 to 11/05/2021
	10 November 2017	301,436	5.014	07/06/2018 to 09/11/2022
	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023
WEI Kuo-chiang	12 May 2016	301,973	4.645	08/12/2016 to 11/05/2021
	10 November 2017	301,436	5.014	07/06/2018 to 09/11/2022
	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023
WAN Kam To	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023
LIU Yan	1 November 2018	300,000	2.904	28/05/2019 to 31/10/2023

2. Those shares are held by Mr. LIN Yong as beneficial owner, included 1,415,478 unvested awarded shares granted by the Company pursuant to the share award scheme adopted on 19 December 2014 (the “Scheme”).
3. Those shares are held by Mr. LI Jianguo as beneficial owner.
4. Those shares are held by Mr. POON Mo Yiu as beneficial owner, included 236,902 unvested awarded shares granted by the Company pursuant to Scheme.
5. Those shares are held by Mr. SUN Jianfeng as beneficial owner and included 537,879 unvested awarded shares granted by the Company pursuant to the Scheme.
6. Those shares are held by Mr. SUN Tong as beneficial owner and included 522,689 unvested awarded shares granted by the Company pursuant to the Scheme.
7. Those shares are held by Mr. CHENG Chi Ming Brian as beneficial owner.
8. Those shares are held by Mr. ZHANG Xinjun as beneficial owner and included 240,296 unvested awarded shares granted by the Company pursuant to the Scheme.
9. Those shares are held by Mr. TSUI Hing Chuen William as beneficial owner.
10. Those shares are held by Mr. LAU Wai Piu as beneficial owner.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors, no Director was a director or employee of a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company	Position within such company
Mr. QU Qiuping	HTIH	Chairman and director
Mr. LIN Yong	HTIH	General Manager and director
Mr. LI Jianguo	HTIH	Vice Chairman and director
Mr. SUN Tong	HTIH	Deputy General Manager
Mr. ZHANG Xinjun	HTIH	Chief Financial Officer

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had an existing or proposed service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

Mr. QU Qiuping (a non-executive Director), Mr. LIN Yong (an executive Director), Mr. LI Jianguo (an executive Director), Mr. POON Mo Yiu (an executive Director), Mr. SUN Tong (an executive Director), Ms. WANG Meijuan (a non-executive Director) and Mr. ZHANG Xinjun (a non-executive Director) (the “**Relevant Directors**”) are all directors or officers (as the case may be) of certain members of the HSCL Group. Operations of the HSCL Group compete or may compete, either directly or indirectly, with the business of the Group.

The Directors consider that, having taken into account the followings:

- (a) the Group is capable of, and does carry on its business independently of, and on an arm’s length basis, with the competing business of the HSCL Group;
- (b) the Group and the HSCL Group have each augmented its business in a way so as to optimise the synergistic effect between the Group and the HSCL Group with a view to, where that is appropriate, minimising duplication in terms of allocation of time and resources, and promoting efficiency, effectiveness and quality in the development of their respective businesses;
- (c) the Company has established corporate governance procedures to ensure business opportunities and performance are independently assessed and reviewed from time to time;

- (d) the Relevant Directors are fully aware of their fiduciary duties to the Group, and will abstain from voting on any matter where there is or may be a conflict of interest; and
- (e) the competing business in which the HSCL Group is engaged is primarily focused in the PRC whereas the Group's business is primarily Hong Kong-based,

the Group's interest is adequately safeguarded.

Since (i) all the major and important corporate actions of the Company are and will be fully deliberated and determined by the Board; and (ii) any Director(s) who is/are or is/are deemed to be interested in any proposed transaction(s) will have his/her/their interest fully disclosed and will abstain from voting at the relevant resolution(s) in accordance with the applicable requirements of the new bye-laws of the Company from time to time, the Board is of the view that each of the Relevant Directors does not, by himself/herself or in an individual capacity, competes with the business of the Company and/or the Group.

Based on the above, as at the Latest Practicable Date, none of the Directors or their respective close associates was considered to have interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

5. 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 balance sheet date of the latest published audited financial statements of the Company.

6. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

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

As at the Latest Practicable Date, except for the Master Agreement and any operational agreement(s) which may be entered into pursuant and subject to the terms of the Master Agreement, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Group.

7. CONSENT OF EXPERT

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and reference to its name in the form and context as set out in this circular.

As at the Latest Practicable Date, the Independent Financial Adviser was not interested in any Shares or shares in any member(s) of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares or securities in any member(s) of the Group.

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

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

As disclosed in the announcement of the Company dated 15 December 2017, Haitong International (BVI) Limited (a wholly-owned subsidiary of the Company) entered into the sale and purchase agreements with Haitong Bank, S.A. in relation to the acquisitions of Haitong (UK) Limited and Haitong Securities USA LLC respectively.

Saved as disclosed above, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) have been entered into by any members of the Group within the two years immediately preceding the Latest Practicable Date.

10. QUALIFICATION OF EXPERT

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

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

11. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. LO Wai Ho, who is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office address of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company's head office and principal place of business in Hong Kong is situated at 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection by the Shareholders at 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong during normal business hours on working days (other than public holidays) up to and including 24 May 2019:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts as referred to in the paragraph headed “**Material Contracts**” in this appendix;
- (c) the Previous Master Services Agreement;
- (d) the Master Agreement;
- (e) the letter from the Independent Board Committee, the full text of which is set out on pages 19 and 20 of this circular;
- (f) the letter from the Independent Financial Adviser, the full text of which is set out on pages 21 to 43 of this circular;
- (g) the consent letter of the Independent Financial Adviser referred to in the section headed “**Consent of Expert**” in this appendix;
- (h) the annual reports of the Company for each of the two financial years ended 31 December 2016 and 2017;
- (i) the annual results announcement of the Company dated 22 March 2019 for the year ended 31 December 2018; and
- (j) this circular.



HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

海通國際證券集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 665)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Haitong International Securities Group Limited (the “**Company**”) will be convened at Executive Meeting Room A, 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong on Friday, 24 May 2019 at 11:00 a.m. (or so soon thereafter as the annual general meeting of the shareholders convened to be held at 10:30 a.m. on the same date and at the same place shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as an ordinary resolution of the Company:

Ordinary Resolution

1. “**THAT:**

- (a) the entering into of the master agreement as defined and described in the circular of the Company dated 24 April 2019 (the “**Circular**”) (the “**Master Agreement**”) (a copy of each of the Circular and the Master Agreement having been produced to the Meeting and marked “A” and “B” respectively and each signed by the chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder and in connection therewith and any other documents ancillary to it, be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps for the transactions contemplated under the Master Agreement set out in the Circular be and are hereby approved; and
- (c) any director(s) of the Company be and is/are hereby authorized for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and to do all such things as they may in their absolute discretion consider necessary, desirable or expedient to implement and/or to give effect to or otherwise in connection with the Master Agreement and the transactions contemplated thereunder.”

By order of the Board
Haitong International Securities Group Limited
LO Wai Ho
Company Secretary

Hong Kong, 24 April 2019

NOTICE OF THE SGM

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business in Hong Kong:

22nd Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Notes:

1. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote at the Meeting in his/her stead. A shareholder who is the holder of two or more shares may appoint more than one proxy. A proxy need not be a shareholder of the Company.
2. In order to be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof, must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time appointed for holding the Meeting or any adjourned meeting thereof.
3. The form of proxy for use at the Meeting is enclosed in the Circular. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting or any adjourned Meeting thereof if the shareholder of the Company so desires, and in such event, the form of proxy will be deemed to be revoked.
4. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint registered holders are present at the Meeting personally or by proxy, then one of the registered holders so present whose name stands first on the register of members of the Company in respect of such share, or his/her proxy, shall alone be entitled to vote and will be accepted to the exclusion of other joint registered holders in respect thereof.
5. For ascertaining shareholders' right to attend and vote at the Meeting, the register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 May 2019.

As at the date hereof, the Board comprises Mr. QU Qiuping (Chairman), Mr. LIN Yong (Deputy Chairman and Chief Executive Officer), Mr. LI Jianguo (Deputy Chairman), Mr. POON Mo Yiu, Mr. SUN Jianfeng, Mr. SUN Tong, Mr. CHENG Chi Ming Brian*, Ms. WANG Meijuan*, Mr. ZHANG Xinjun*, Mr. William CHAN*, Mr. TSUI Hing Chuen William**, Mr. LAU Wai Piu**, Mr. WEI Kuo-chiang**, Mr. WAN Kam To** and Ms. LIU Yan**.*

* *Non-executive Directors*

** *Independent Non-executive Directors*