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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or otherwise transferred all your shares in **China Tonghai International Financial Limited**, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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### **中國通海國際金融有限公司** **CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 952)**

#### **(A) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

#### **(B) MAJOR TRANSACTION THE SECOND SUPPLEMENTAL AGREEMENTS IN RELATION TO EXTENSION OF LOANS**

**Financial adviser to China Tonghai International Financial Limited**



**中國通海企業融資**  
**CHINA TONGHAI CAPITAL**

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



**信溢投資策劃有限公司**  
**CHALLENGE CAPITAL MANAGEMENT LIMITED**

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Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those set out in the section headed “Definitions” of this circular.

A letter from the Board is set out on pages 5 to 21 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 22 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 23 to 36 of this circular.

A notice convening the SGM to be held at East and West Rooms, 23/F, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 8 March 2019 at 11:00 a.m. is set out on pages 51 to 53 of this circular.

Whether or not you are able to attend such meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Tengis 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 holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

20 February 2019

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## DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Borrower”	Company A, a company incorporated in the British Virgin Islands with limited liability
“China Tonghai Securities”	China Tonghai Securities Limited, an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability, which is principally engaged in discretionary and non-discretionary securities, futures and options dealing services, securities placing and underwriting services, margin financing services and corporate finance advisory and general advisory services in Hong Kong
“Company”	China Tonghai International Financial Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (Stock code: 952)
“Connected Clients”	clients of China Tonghai Securities who are connected persons of the Company
“Connected Dealings Fees”	the Securities Dealings Fees, Futures Dealings Fees and Financing Interests paid by the Connected Clients to China Tonghai Securities in respect of the Connected Dealing Services
“Connected Dealings Services”	the Connected Securities Dealings, Connected Futures Dealings and Margin Financing Arrangements conducted between China Tonghai Securities and the Connected Clients
“Connected Futures Dealings”	dealings in futures contracts by the Connected Clients through China Tonghai Securities
“Connected Margin Loans”	margin loans advanced to the Connected Clients through China Tonghai Securities under the Margin Financing Arrangements
“connected person”	has the meanings ascribed to it under the Listing Rules
“Connected Securities Dealings”	dealings in securities by the Connected Clients through China Tonghai Securities
“Director(s)”	the director(s) of the Company
“Financing Interests”	interests paid by the Connected Clients to China Tonghai Securities in respect of the Margin Financing Arrangements

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## DEFINITIONS

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“First Loan”	the short term loan with the principal amount of HK\$225 million granted by the Lender to the Borrower pursuant to the First Loan Facility Agreement (as amended by the First Supplemental Agreements) or the principal amount of HK\$125 million pursuant to the First Loan Facility Agreement (as amended by the First Supplemental Agreements and the Second Supplemental Agreements) (as the case may be)
“First Loan Facility Agreement”	the loan facility agreement dated 23 July 2018 entered into between the Lender and the Borrower in respect of the First Loan
“First Supplemental Agreements”	the supplemental agreements dated 23 September 2018 entered into between the Lender and the Borrower to supplement the Loan Facility Agreements, details of which are set out in the announcement of the Company dated 23 September 2018
“Futures Dealings Fees”	commissions paid by the Connected Clients to China Tonghai Securities in respect of the Connected Futures Dealings
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board comprising the independent non-executive Directors established to advise the Independent Shareholders in respect of the Connected Dealing Services, the Connected Margin Loans and the Proposed Annual Caps
“Independent Financial Adviser” or “Challenge Capital”	Challenge Capital Management Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps
“Independent Shareholders”	Shareholders other than those that are required to abstain from voting at the SGM to consider and approve the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps

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## DEFINITIONS

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“Independent Third Parties”	persons or companies who/which are not connected with (within the meaning of the Listing Rules) and are independent of the directors, chief executives and substantial shareholders of the Group or any of their respective associates
“Latest Practicable Date”	15 February 2019, being the latest practicable date for the purpose of ascertaining information contained in this circular
“Lender”	China Tonghai Finance Limited, an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability and a registered money lender holding a valid money lenders license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and is principally engaged in the business of money lending services
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facility Agreements”	the facility agreements dated 23 July 2018 and 9 August 2018 entered into between the Lender and the Borrower in relation to the provision of the First Loan and the Second Loan respectively
“Loans”	the First Loan and the Second Loan
“Margin Financing Arrangements”	share margin financing arrangements offered by China Tonghai Securities to the Connected Clients in respect of their securities dealings through China Tonghai Securities
“Obligor(s)”	the Borrower and/or the Personal Guarantor
“Personal Guarantor”	Mr. A, a director and the sole shareholder of the Borrower
“Proposed Annual Caps”	the respective annual caps for each of the Connected Dealings Services and the Connected Margin Loans from 1 April 2019 to 31 December 2021
“Second Loan”	the short term loan with the principal amount of HK\$120 million granted by the Lender to the Borrower pursuant to the Second Loan Facility Agreement (as amended by the First Supplemental Agreements and the Second Supplemental Agreements)
“Second Loan Facility Agreement”	the loan facility agreement dated 9 August 2018 entered into between the Lender and the Borrower in respect of the Second Loan

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## DEFINITIONS

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“Second Supplemental Agreements”	the supplemental agreements dated 15 January 2019 entered into between the Lender and the Borrower to supplement the Loan Facility Agreements (as amended by the First Supplemental Agreements)
“Securities Dealings Fees”	commission paid by the Connected Clients to China Tonghai Securities in respect of the Connected Securities Dealings
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held for the purpose of, considering and if thought fit, approving (i) the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps and (ii) the entering into the Second Supplemental Agreements and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of Hong Kong one third of one cent each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States Dollar(s), the lawful currency of United States of America
“%”	per cent



**中國通海國際金融有限公司**  
**CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 952)**

*Executive Directors:*

Mr. HAN Xiaosheng (*Chairman*)  
Mr. ZHANG Bo (*Deputy Chairman*)  
Mr. ZHANG Xifang  
Mr. FENG Henian  
Mr. LIU Hongwei  
Mr. Kenneth LAM Kin Hing

*Non-executive Directors:*

Mr. Bernard POULIOT  
Mr. LIU Bing  
Mr. ZHAO Yingwei  
Mr. ZHAO Xiaoxia

*Independent Non-executive Directors:*

Mr. Roy LO Wa Kei  
Mr. KONG Aiguo  
Mr. LIU Jipeng  
Mr. HE Xuehui  
Mr. HUANG Yajun

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head Office and Principal Place  
of Business in Hong Kong:*

18th and 19th Floors  
China Building  
29 Queen's Road Central  
Hong Kong

20 February 2019

*To the Shareholders,*

Dear Sir or Madam,

**(A) RENEWAL OF EXISTING CONTINUING CONNECTED  
TRANSACTIONS**

**(B) MAJOR TRANSACTION  
THE SECOND SUPPLEMENTAL AGREEMENTS IN RELATION TO  
EXTENSION OF LOANS**

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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the Company's announcement dated 9 January 2019 and 15 January 2019 in relation to (i) the renewal of certain existing continuing connected transactions between the Group and certain connected persons of the Company in respect of the Connected Dealings Services, the Connected Margin Loans and the respective annual caps thereunder from 1 April 2019 to 31 December 2021; and (ii) the entering into the Second Supplemental Agreements in relation to further extension of Loans, respectively.

The purpose of this circular is to provide you with further information in relation to, among other things, (i) details of the Connected Dealings Services, the Connected Margin Loans, the Proposed Annual Caps and the Second Supplemental Agreements; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps; and (iv) a notice convening the SGM at which ordinary resolutions will be proposed to seek the Independent Shareholders' approval for the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps and the Shareholder's approval for the Second Supplemental Agreements and the transactions contemplated thereunder.

### A. RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Company's circular dated 26 April 2016 in relation to certain continuing connected transactions between the Group and certain connected persons of the Company. These continuing connected transactions include the Connected Dealings Services and the Connected Margin Loans.

The respective annual caps of the aforesaid continuing connected transactions will expire on 31 March 2019. The Group intends to continue to provide the Connected Dealings Services and the Connected Margin Loans. As such, the Group proposes to renew the respective annual caps of the aforesaid continuing connected transactions from 1 April 2019 to 31 December 2021.

#### **Connected Dealings Services**

The Board proposes to renew the annual caps of the Connected Dealings Services from 1 April 2019 to 31 December 2021. The Connected Dealings Services comprise of the Connected Futures Dealings, the Connected Securities Dealings and the Margin Financing Arrangements as follows:

#### ***(a) Connected Futures Dealings***

Futures dealings is one of the principal businesses of China Tonghai Securities, an indirect wholly-owned subsidiary of the Company. China Tonghai Securities charges its clients commissions per futures contract, which vary according to the type of futures contract and the futures exchange on which it



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## LETTER FROM THE BOARD

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is traded, ranging from HK\$0.75 to HK\$489 per contract. For Hang Seng Futures product trading on the Hong Kong Futures Exchange, the commissions for day trading normally ranging from HK\$10 to HK\$30 per contract. The commissions per futures contract are determined with reference to the then prevailing commissions of futures markets.

The Connected Clients trade futures contracts through China Tonghai Securities from time to time. In return, China Tonghai Securities charges them the Futures Dealings Fees. The Futures Dealings Fees are commissions based on the number of futures contracts multiplied by the applicable commission rates.

***(b) Connected Securities Dealings***

China Tonghai Securities also offers securities dealing services. China Tonghai Securities charges its clients commissions based on the consideration of the securities traded, which vary according to the stock exchange on which it is traded, ranging from 0.005% to 2.75%. For Hong Kong equities, the commission rates normally range from 0.08% to 0.25%. The commission rates are determined with reference to the then prevailing commission rates of stock markets, major securities brokerage firms in Hong Kong and taking into consideration of trading volume of the clients.

The Connected Clients trade securities through China Tonghai Securities from time to time. In return, China Tonghai Securities charges them the Securities Dealings Fees. The Securities Dealings Fees are commissions based on the consideration of the transactions multiplied by the applicable commission rates.

***(c) Margin Financing Arrangements***

China Tonghai Securities offers share margin financing to its clients in respect of their securities dealings through China Tonghai Securities. China Tonghai Securities charges its clients interests on the advances made in respect of the amount of share margin financing. The interest rate charged on the advances made is calculated on the basis of 1% to 5% above the prime rate as quoted by a principal banker of the Group from time to time. The interest rate shall be determined with reference to credit worthiness, trading record and quality of collaterals provided by the clients and in accordance with the policy of China Tonghai Securities from time to time.

China Tonghai Securities provides margin financing to certain Connected Clients. In return, China Tonghai Securities charges them the Financing Interests. The Financing Interests are interests based on the total outstanding margin loans advanced multiplied by the applicable interest rates.

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## LETTER FROM THE BOARD

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The Connected Dealings Fees shall be determined in accordance with the aforesaid pricing mechanisms that apply to all clients. The terms of the Connected Dealings Services, including the Connected Dealings Fees, shall be no less favourable to the Group than those apply to Independent Third Parties.

### **Connected Margin Loans**

The Board also proposes to renew the annual caps on the maximum daily outstanding balance of the Connected Margin Loans from 1 April 2019 to 31 December 2021.

As detailed in the above sub-section headed “Margin Financing Arrangements” under the section headed “Connected Dealings Services”, China Tonghai Securities provides margin loans to certain Connected Clients under the Margin Financing Arrangements. China Tonghai Securities enters into standing authority letters with the Connected Clients for provision of share margin financing, which are standard agreements adopted by China Tonghai Securities for all of its margin financing clients. The terms of the Margin Financing Arrangements, including the Connected Margin Loans, shall be no less favourable to the Group than those apply to Independent Third Parties.

Pursuant to the standard client agreement between China Tonghai Securities and all of its margin financing clients who are Independent Third Parties and the Connected Clients, in the occurrence of an event of default, China Tonghai Securities shall be entitled to, among other things, sell or otherwise realise the whole or any part (as determined by China Tonghai Securities) of the collateral as to when and how and at such price and on such terms as China Tonghai Securities shall think fit, and to apply the net proceeds in discharging the indebtedness owing by such client to China Tonghai Securities. The Connected Clients and other margin financing clients who are Independent Third Parties are subject to the same margin financing ratios as published on the website of China Tonghai Securities from time to time, which are primarily determined with reference to the financing policies of China Tonghai Securities.

### **Duration of the Agreements in Respect of the Connected Dealings Services**

China Tonghai Securities enters into account opening agreements with the Connected Clients in respect of the Connected Dealings Services, which are standard account opening agreements adopted by China Tonghai Securities for all clients and do not stipulate specified expiry dates but include a clause of termination which provides that either the client or China Tonghai Securities may terminate such agreement at any time by giving a written notice in advance of certain number of days. It is the Company’s understanding that it is a normal market practice for brokerage service providers in Hong Kong to enter into account opening agreements of similar nature as the Connected Dealings Services with clients without a specific expiry date.

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## LETTER FROM THE BOARD

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### Internal Control Procedures

The Group has established pricing policies for the fees charged in respect of dealings in securities, future contracts and providing share margin financing arrangements. The Securities Dealings Fees, Futures Dealings Fees and Financing Interests charged by the Group against the Connected Clients are set to be within the same range applied to Independent Third Parties. Any proposed change to such pricing policies applied to the Connected Clients will be conformed within the normal business range applied to Independent Third Parties and shall be no less favourable to the Group than those apply to Independent Third Parties. The Group will also, from time to time, review whether commissions and margin loans' interest rates charged to Independent Third Parties by the Group are consistent with those charged by other service providers in the same industry, given the same nature and extent of services.

The Group maintains a list of connected parties in connection with the Connected Dealings Services and the Connected Margin Loans. For the Connected Dealings Services, Responsible Officer (“**RO**”) of Overall Management Oversight (“**OMO**”) will review, whether or not the Connected Dealings Fees would exceed the relevant annual caps. For the Connected Margin Loans, the head of credit department will review, whether or not the aggregate amount of margin loans to the Connected Clients (and the maximum outstanding balance of the Connected Margin Loans) would exceed the relevant annual caps. In particular, the head of credit department will review each margin loan application received from the Connected Clients and will grant approval on such margin loan only if the aggregate amount of margin loans to the Connected Clients will not exceed the relevant annual caps upon granting the approval of such margin loans. A designated staff in the finance department would generate the actual usage of the Connected Dealings Fees and balance of the Connected Margin Loans monthly to review whether the usage close to the relevant annual caps and would inform the RO of OMO and the head of credit department if it would be the case.

The independent non-executive Directors will perform an annual review pursuant to Rule 14A.55 of the Listing Rules and confirm in the annual reports of the Company that the Connected Dealings Services and the Connected Margin Loans are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company's auditors will issue a letter to the Board containing their findings and conclusions confirming whether nothing has come to their attention that causes them to believe that the Connected Dealings Services and the Connected Margin Loans (i) have not been approved by the Board; (ii) are not, in all material aspects, in accordance with the pricing policies of the Group; (iii) are not entered into, in all material aspects, in accordance with the agreements in respect of the Connected Dealings Services and the Connected Margin Loans; and (iv) have exceeded the corresponding annual caps in accordance with Rule 14A.56 of the Listing Rules.

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## LETTER FROM THE BOARD

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Based on the above internal control procedures, the Company considers that there are adequate measures in place to ensure that the Connected Dealings Services and the Connected Margin Loans will be entered into in accordance with the policy of the Group and on normal commercial terms which will not be prejudicial to the interests of the Company and the Shareholders as a whole.

### Historical Transaction Amounts and Proposed Annual Caps

The table below sets out the historical transaction amounts and the proposed annual caps in respect of (i) the Connected Dealings Services; and (ii) the Connected Margin Loans:

	Historical amount				Proposed annual caps		
	For the year ended 31 March 2016 HK\$	For the year ended 31 March 2017 HK\$	From 1 April 2017 to 31 December 2017 HK\$	From 1 January 2018 to 30 November 2018 HK\$	From 1 April 2019 to 31 December 2019 HK\$	For the year ending 31 December 2020 HK\$	For the year ending 31 December 2021 HK\$
Connected Dealings Fees	2,057,000	2,568,000	966,000	1,709,000	22,500,000	30,000,000	30,000,000
Maximum daily outstanding balance of the Connected Margin Loans	18,651,000	44,083,000	23,600,000	51,367,000	116,000,000	116,000,000	116,000,000

#### *(a) Proposed annual caps for the Connected Dealings Services*

The proposed annual caps for the Connected Dealings Services have been determined after taking into consideration of the following, among other things:

- (i) the historical amounts of the securities and futures dealings services provided by the Group, after taking into consideration of the transactions with the Connected Clients for the two years ended 31 March 2017, for the period from 1 April to 31 December 2017 and the eleven months ended 30 November 2018;
- (ii) the anticipated demand for the Connected Dealings Services over the next three years based on the discussions with the major Connected Clients;
- (iii) the possible increase in the number of the Connected Clients due to expansion of the Group; and
- (iv) a buffer to allow flexibility for the Group to provide the Connected Dealings Services to the Connected Clients to cater for the possible increase in demand for the Connected Dealings Services that may arise as a result of any increase in volatility of the stock markets and futures markets in the future.

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## LETTER FROM THE BOARD

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***(b) Proposed annual caps for the maximum daily outstanding balance of the Connected Margin Loans***

The proposed annual caps for the maximum daily outstanding balance of the Connected Margin Loans have been determined after taking into consideration of the following, among other things:

- (i) the historical maximum daily outstanding balances of margin financing advanced to the Connected Clients for the two years ended 31 March 2017, for the period from 1 April to 31 December 2017 and the eleven months ended 30 November 2018;
- (ii) the anticipated demand for the maximum amount of the Connected Margin Loans over the next three years based on the discussions with the major Connected Clients;
- (iii) the Group's current financial position;
- (iv) the possible increase in the number of the Connected Clients due to expansion of the Group; and
- (v) a buffer to allow flexibility for the Group to provide the Connected Margin Loans to the Connected Clients to cater for the possible increase in demand for the Connected Margin Loans that may arise as a result of any increase in volatility of the stock markets in the future.

In setting the Proposed Annual Caps, the Company has carried out discussions with the major Connected Clients. Based on the Company's understandings, the Company has taken account into the (i) historical amount of maximum loans advanced to the major Connected Clients; and (ii) anticipated demand for the Connected Dealings Services and the Connected Margin Loans of the major Connected Clients by making reference to their investment plans and future trading needs, which is estimated to demonstrate a general increase in respect of utilising the Connected Dealings Services and the Connected Margin Loans from 1 April 2019 to 31 December 2021.

In addition, the Directors are of the view that the demand for the Connected Dealings Services and the Connected Margin Loans also depend on various factors, including the trading volume in the Hong Kong stock and futures markets and the overall market sentiment. According to the statistics disclosed by Hong Kong Exchanges and Clearing Limited, the average daily turnover of the cash market reached a record high of approximately HK\$107.4 billion for the year ended 31 December 2018, representing an increase of approximately 21.8% as compared to approximately HK\$88.2 billion for the year ended 31 December 2017. Besides, the average daily turnover of futures and options in 2018 was 1,203,996 contracts, representing an approximately 38.4% year-on-year increase when compared to 869,819 contracts in 2017. Although both of the average daily turnover of the stock and futures market exhibited an increasing trend in 2018

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## LETTER FROM THE BOARD

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when compared to 2017, the HSI Volatility Index, an indicator of volatility of Hang Seng Index, increased from an average of approximately 14.09% to approximately 20.71% during the same period, representing an increase of approximately 47.0%. Coupled with the external uncertainties such as the trade war between China and the United States and the anticipated United States interest rate hikes which are expected to further increase the volatility of the financial market, a buffer will be necessary in order to cater for the possible increase in volatility from 1 April 2019 to 31 December 2021 which the Group would otherwise be restricted to provide the Connected Dealings Services and the Connected Margin Loans. The Group is required to obtain another approval from the Independent Shareholders before providing Connected Dealings Services and Connected Margin Loans that exceeded the Proposed Annual Caps, therefore it is needed for the Proposed Annual Caps to be sufficiently large so that the Group would be able to meet the timing constraints of the investment decisions of its Connected Clients.

As disclosed in the Company's annual report in 2017, its financial position has been strengthened over the past three years, as demonstrated by the increase in the Group's net asset value from approximately HK\$608.0 million as at 31 March 2016 to approximately HK\$5,767.4 million as at 30 June 2018. In view of (i) such substantial increase in the Group's capital base as at 30 June 2018 was primarily attributable to completion of the rights issue with net proceeds of approximately HK\$5,127.1 million in August 2017; and (ii) the historical amount of the maximum daily outstanding balance of the Connected Margin Loans reached the highest at approximately HK\$51.4 million between 1 April 2015 and 30 November 2018, the Directors consider that the proposed annual caps of the Connected Margin Loans are set to accommodate the expected future funding needs from the Connected Clients in making investment decisions.

Taking into account of the (i) anticipated demand for the Connected Dealings Services and the maximum amount of the Connected Margin Loans based on the understandings from the major Connected Clients; (ii) future economic uncertainties and any increase in volatility of stock markets; (iii) possible increase in the number of the Connected Clients from 1 April 2019 to 31 December 2021 due to expansion of the Group; (iv) substantial increase in the Group's capital base in the recent years, the Directors have provided buffers for the Proposed Annual Caps to allow greater flexibility in providing the Connected Dealings Services and the Connected Margin Loans, which are of revenue in nature. This will enable the Group to capture additional business which, if they materialise, will be beneficial to the Group since they are on terms no less favourable to the Group than those applied to independent clients. As a result, the Directors are of the view that the Proposed Annual Caps are fair and reasonable.

## LETTER FROM THE BOARD

### The Connected Clients

The detailed information of the Connected Clients as at the Latest Practicable Date is as follows:

Name of the Connected Clients	The Connected Clients' relationship with the Group	Date of account opening agreement	Number of Shares held as at the Latest Practicable Date	The activities of the Connected Clients		
				Connected Securities Dealings	Connected Futures Dealings	Connected Margin Loans
Mr. HAN Xiaosheng	Director	1 February 2019	0	✓	✓	✓
Mr. ZHANG Bo	Director	1 February 2019	0	✓	✓	✓
Mr. ZHANG Xifang	Director	1 February 2019	0	✓	✓	✓
Mr. LIU Hongwei	Director	4 February 2019	0	✓	✓	✓
Mr. LIU Bing	Director	1 February 2019	0	✓	✓	✓
Mr. Kenneth LAM Kin Hing	Director	27 June 2000	113,022,833	✓	✓	✓
Ms. Mona KWOK Ka Wai	Spouse of Mr. Kenneth LAM Kin Hing	21 September 2000	0	✓	✓	—
Olympia Asian Limited (Note 1)	Associate of Mr. Kenneth LAM Kin Hing	30 August 2002	0	✓	—	—
Ms. KAN Lucia	Sister of Mr. Kenneth LAM Kin Hing	19 November 2012	0	✓	—	—
Ms. Portia LAM Fung Cheung	Sister of Mr. Kenneth LAM Kin Hing	19 November 2012	0	✓	—	—
Ms. Jenny LAM Fung Ching	Sister of Mr. Kenneth LAM Kin Hing	19 November 2012	0	✓	—	—
Mr. Eric LAM Lik Hing	Brother of Mr. Kenneth LAM Kin Hing	22 October 2014	0	✓	—	—
Mr. Kiral LAM Jing Yu	Son of Mr. Kenneth LAM Kin Hing	23 July 2014	0	✓	—	—
Mr. Kyle LAM Jing Wei	Son of Mr. Kenneth LAM Kin Hing	28 July 2014	0	✓	—	—
Ms. Kyla LAM Jing Jia	Daughter of Mr. Kenneth LAM Kin Hing	20 July 2015	0	✓	—	—
Mr. Bernard POULIOT	Director	16 September 1991	38,952,666	✓	✓	✓
Ms. Elizabeth CHAN Wai Yin	Spouse of Mr. Bernard POULIOT	3 June 1998	0	✓	—	✓
Mr. Nicolas POULIOT	Son of Mr. Bernard POULIOT	27 June 2011	0	✓	—	✓
Mr. Stefan Andre POULIOT	Son of Mr. Bernard POULIOT	27 June 2011	0	✓	—	✓
Baroque Investments Limited (Note 2)	Family trust of Mr. Bernard POULIOT	22 January 2001	0	✓	—	—
Mrs. CHAN CHAN Yeuk Lan	Mother-in-law of Mr. Bernard POULIOT	18 February 2004	0	✓	—	✓



## LETTER FROM THE BOARD

Name of the Connected Clients	The Connected Clients' relationship with the Group	Date of account opening agreement	Number of Shares held as at the Latest Practicable Date	The activities of the Connected Clients		
				Connected Securities Dealings	Connected Futures Dealings	Connected Margin Loans
Mr. Calvin CHIU Chun Kit	Director of subsidiaries of the Company	24 March 2009	100,000	✓	✓	✓
Mr. Chris WU Kwok Choi	Director of subsidiaries of the Company	11 May 2018	0	✓	✓	✓
Mr. Benny CHUNG Koon Chung	Director of a subsidiary of the Company	11 February 2019	0	✓	✓	✓
Ms. Jane CHAN Ching Yin	Director of subsidiaries of the Company	29 January 2014	0	✓	—	—
Mr. Robert William MCMILLEN	Director of subsidiaries of the Company	7 March 2012	0	✓	—	—
McMillen Advantage Capital Ltd	Associate of Mr. Robert William MCMILLEN	24 June 2006	0	✓	—	✓
MAC Capital Advisors Limited	Associate of Mr. Robert William MCMILLEN	30 May 2007	0	✓	—	✓
Mr. YAN Chi Kwan	Director of subsidiaries of the Company	10 August 2018	0	✓	—	✓
Minyun Limited	Associate of a substantial Shareholder	16 January 2019	0	✓	—	✓
Ms. HUNG Chun Yee	Former director of a subsidiary of the Company within the preceding 12 months	13 July 2007	0	✓	—	—
Mr. Kevin Graeme SEW HOY	Former director of subsidiaries of the Company within the preceding 12 months	21 August 2003	0	✓	—	—
Ms. Jennifer Shing LOO	Spouse of Mr. Kevin Graeme SEW HOY	26 October 2007	0	✓	—	—
Mr. Jack SEW HOY	Brother of Mr. Kevin Graeme SEW HOY	4 December 2009	0	✓	—	—
Mr. Philip CHOI Lai Sang	Former director of subsidiaries of the Company within the preceding 12 months	4 December 2008	0	✓	✓	✓
			152,075,499			

*Notes:*

- Olympia Asian Limited is principally engaged in investment holding and beneficially owned by Mr. Kenneth LAM Kin Hing, the Chief Executive Officer and an executive Director.
- Baroque Investments Limited is principally engaged in investment holding.



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## LETTER FROM THE BOARD

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### **Reasons for and Benefits of the Connected Dealings Services and the Connected Margin Loans**

The Connected Dealings Services and the Connected Margin Loans are conducted in the ordinary and usual course of business of the Group. Additional income will be generated from provision of the Connected Dealings Services and the Connected Margin Loans. Furthermore, the Connected Dealings Fees shall be no less favourable to the Group than those apply to Independent Third Parties.

Given the aforesaid, the Directors (including the independent non-executive Directors) are of the view that the terms of the Connected Dealings Services and the Connected Margin Loans are conducted on normal commercial terms and in the ordinary course of business and fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Directors who have material interests in the Connected Dealings Services and the Connected Margin Loans are Mr. Kenneth LAM Kin Hing and Mr. Bernard POULIOT. Therefore, Mr. Kenneth LAM Kin Hing and Mr. Bernard POULIOT have abstained from voting on the board resolutions in respect of the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps.

### **B. THE SECOND SUPPLEMENTAL AGREEMENTS IN RELATION TO EXTENSION OF LOANS**

#### **The Loan Facility Agreements and the First Supplemental Agreements**

On 23 July 2018, the First Loan Facility Agreement was entered into between the Lender, an indirect wholly-owned subsidiary of the Company, and the Borrower, pursuant to which the Lender agreed to provide the Borrower the First Loan in an amount of HK\$225 million for a period of two months.

On 9 August 2018, the Lender entered into the Second Loan Facility Agreement with the Borrower, pursuant to which the Lender agreed to provide the Borrower the Second Loan in an amount of HK\$120 million for a period of two months.

On 23 September 2018, the parties entered into the First Supplemental Agreements to extend the repayment date of the First Loan and the Second Loan to 21 December 2018 and change the interest rate on the First Loan from 6.25% per annum to 9.5% per annum, which is the same interest rate of the Second Loan. Save as aforesaid, all other terms of the Loan Facility Agreements remain in full force and effect.

The Borrower has repaid the principal amount of HK\$100 million of the First Loan and also all interests accrued on Loans up to 21 December 2018. After the repayment by the Borrower, the principal amount of the Loans is reduced from HK\$345 million to HK\$245 million.

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## LETTER FROM THE BOARD

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### The Second Supplemental Agreements

Following negotiations between the Lender and the Borrower, on 15 January 2019, the parties entered into the conditional Second Supplemental Agreements. The principal terms of the conditional Second Supplemental Agreements are set out below:

	<b>The second supplemental agreement to the First Loan Facility Agreement</b>	<b>The second supplemental agreement to the Second Loan Facility Agreement</b>
Date of Agreement:	15 January 2019	15 January 2019
Parties:	China Tonghai Finance Limited (previously known as Oceanwide Finance Limited) (as the Lender of the Loans)  Company A (as the borrower)	
Principal amounts:	HK\$125 million	HK\$120 million
Interest rate:	9.5% per annum	9.5% per annum
Repayment:	The repayment date of the Loans shall be extended from 21 December 2018 to 21 March 2019.	
Event of default:	There shall be an event of default if, among others, any of the following events shall have occurred:  (i) an Obligor does not pay on the due date any amount payable pursuant to the Loan Facility Agreements;  (ii) an Obligor does not comply with any provision of the Loan Facility Agreements;  (iii) any corporate action, legal proceedings or other procedure or step is taken in relation to, among other things, winding up, dissolution, reorganisation, enforcement of any security over the assets of any Obligor, or any analogous procedure or step is taken in any jurisdiction;  (iv) an expropriation, attachment, sequestration, distress or execution affects any asset or assets of an Obligor;  (v) cross default event of any Obligor;  (vi) an Obligor suspends or ceases to carry on all or a material part of its business; and	

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## LETTER FROM THE BOARD

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(vii) occurrence of certain material adverse matters.

Conditions  
precedent:

The Second Supplemental Agreements are conditional upon the satisfaction of the following conditions:

- (i) The Borrower shall satisfy the following conditions precedent on or before 18 January 2019 (or such later date as the Lender and the Borrower may mutually agree) to the Lender's satisfaction:
  - (a) the Second Supplemental Agreements are duly signed;
  - (b) a certified true copy of a resolution of the board of directors of the Borrower having been provided approving the terms and conditions of the Second Supplemental Agreements and the transactions contemplated thereunder and authorising the due execution, delivery and performance of the Second Supplemental Agreements;
  - (c) the Personal Guarantor is required to sign acknowledgements confirming the further extension of the repayment of the Loans from 22 December 2018 to 21 March 2019 and that the personal guarantee (a deed of guarantee to be given by the Personal Guarantor in favour of the Lender to guarantee the Borrower's repayment of all monies due under the Loans) continues in full force and effect in respect of the Loans advanced under the Loan Facility Agreements (as amended by the First Supplemental Agreements and the Second Supplemental Agreements); and
  - (d) such other documentation having provided which is reasonably required by the Lender; and
- (ii) the Company shall obtain the Shareholders' approval at the SGM in respect of the relevant resolution to approve the Second Supplement Agreements and the transactions contemplated thereunder.

Save as disclosed above, all other terms of the Loan Facility Agreements (as amended by the First Supplemental Agreements) shall remain in full force and effect.

As at the Last Practicable Date, condition (i) had been fulfilled.

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## LETTER FROM THE BOARD

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### **Reasons for and Benefits of Entering into the Second Supplemental Agreements**

The provision of the Loans to the Borrower is in the ordinary course of business of the Lender. The terms of the Second Supplemental Agreements (including interest rate) were negotiated between the Lender and the Borrower on an arm's length basis and are on normal commercial terms. Taking into consideration of, among other things, the interest income to be received by the Group, the short tenure of the Loans, and the acceptable credit standing of the Borrower after the Lender's assessment of the Borrower's creditability having considered the partial repayment of the First Loan by the Borrower and the intention of maintaining a long term business relationship with the Borrower, the Directors consider that the terms of the Second Supplemental Agreements are fair and reasonable and the entering into the Second Supplemental Agreements is in the interests of the Company and the Shareholders as a whole.

### **Financial Effects of Extension of Loans on the Company**

The extension of loans will not have any material impact on liabilities of the Group. Assets and revenue of the Group will be increased as a result of recognition of interest income.

### **C. INFORMATION ON THE BORROWER AND THE PERSONAL GUARANTOR**

The Borrower is a company incorporated in the British Virgin Islands. Its principal business is investment holding. To the best of the Directors' knowledge, the Borrower held approximately 4.39% of the issued share capital of the Company.

The Personal Guarantor is a director and the sole shareholder of the Borrower.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Borrower (together with its ultimate beneficial owner) and the Personal Guarantor are Independent Third Parties.

### **D. INFORMATION ON THE GROUP AND THE LENDER**

The Group is principally engaged in (i) discretionary and non-discretionary dealing services for securities, futures and options, securities placing and underwriting services, margin financing and money lending services, insurance broking and wealth management services; (ii) corporate finance advisory and general advisory services; (iii) fund management, discretionary portfolio management and portfolio management advisory services; (iv) financial media services; and (v) investing and trading of various investment products.

The Lender is an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability. It is a registered money lender holding a valid money lenders license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and is principally engaged in the business of money lending services.

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## LETTER FROM THE BOARD

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### **E. IMPLICATIONS UNDER THE LISTING RULES**

The Connected Dealings Services and the Connected Margin Loans will be provided to the Connected Clients by China Tonghai Securities. Such transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratios (as defined under the Listing Rules) in respect of the Connected Dealings Services and the Connected Margin Loans exceed 5% and the amount of the Proposed Annual Caps are more than HK\$10,000,000, the Connected Dealings Services and the Connected Margin Loans are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The provision of the Loans under the Second Supplemental Agreements constitutes provision of financial assistance under the Listing Rules. As the relevant percentage ratios (as defined under the Listing Rules) in respect of the aggregate interest income for the Loans exceed 25%, the entering into the Second Supplemental Agreements constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is therefore subject to reporting, announcement and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules. As the Loans granted to the Borrower do not exceed 8% under the assets ratio defined under Rule 14.07(1) of the Listing Rules, the grant of the Loans to the Borrower is not subject to the general disclosure obligations under Rule 13.13 of the Listing Rules.

### **F. THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee has been established to make recommendation to the Independent Shareholders regarding the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps. Mr. Roy LO Wa Kei, Mr. KONG Aiguo, Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun, being the independent non-executive Directors, have been appointed by the Board to serve as members of the Independent Board Committee. No member of the Independent Board Committee has any material interest in the Connected Dealings Services and the Connected Margin Loans. A letter from the Independent Board Committee is set out on page 22 of this circular. Challenge Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps. A letter from the Independent Financial Adviser is set out on pages 23 to 36 of this circular.

### **G. THE SGM AND PROXY ARRANGEMENT**

A notice convening the SGM to be held at East and West Rooms, 23/F, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 8 March 2019 at 11:00 a.m. is set out on pages 51 to 53 of this circular. The Board has fixed 4:30 p.m. on Monday, 4 March 2019 as the record time and date for ascertaining the Shareholders' entitlement to attend and vote at the SGM. All transfers of Shares accompanied by the

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## LETTER FROM THE BOARD

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relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 4 March 2019.

The Connected Clients are the substantial Shareholders, the directors of the Company and its subsidiaries and their respective associates whom in aggregate controlled or were entitled to exercise control over the voting rights of 4,647,330,231 Shares as at the Latest Practicable Date and therefore are considered to have material interest in the Connected Dealings Services and the Connected Margin Loans. Accordingly, the Connected Clients are required to abstain from voting at the SGM on the resolutions in respect of the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps.

To the best of the Directors' knowledge, the Borrower held approximately 4.39% of the issued share capital of the Company and therefore is considered to have material interest in the Second Supplemental Agreements. Accordingly, the Borrower and its associates are required to abstain from voting at the SGM on the resolution in respect of the entering into the Second Supplemental Agreements.

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

### **H. RECOMMENDATIONS**

The Directors (including the independent non-executive Directors having taken into account the advice of Challenge Capital), consider that the transactions in respect of the Connected Dealing Services and the Connected Margin Loans are conducted in the ordinary and usual course of business and on normal commercial terms and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps.

The Directors consider that the terms of the Second Supplemental Agreements are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to approve the entering into the Second Supplemental Agreements.

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## LETTER FROM THE BOARD

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### I. GENERAL

Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the additional information set out in the appendices to this circular and the notice of the SGM.

By order of the Board of  
**China Tonghai International Financial Limited**  
**HAN Xiaosheng**  
*Chairman*



**中國通海國際金融有限公司**  
**CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 952)**

20 February 2019

*To the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company to the Shareholders dated 20 February 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used herein shall have the same meanings as defined in the Circular, unless the context requires otherwise.

The Independent Board Committee, comprising the independent non-executive Directors, has been formed by the Board for the purpose of advising the Independent Shareholders in connection with the Connected Dealings Services, the Connected Margin Loans and the Proposed Annual Caps, details of which are set out in the letter from the Board in the Circular. Challenge Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of the advice from Challenge Capital together with the principal factors and reasons taken into consideration in arriving at such advice are set out on pages 23 to 36 of the Circular.

Having considered the terms of the transactions conducted in respect of the Connected Dealings Services and the Connected Margin Loans together with the principal factors and the advice of Challenge Capital, we consider that the Connected Dealings Services and the Connected Margin Loans are conducted in the ordinary and usual course of business and on normal commercial terms and the Proposed Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Proposed Annual Caps at the SGM.

Yours faithfully,

Independent Board Committee

**Mr. Roy LO Wa Kei Mr. KONG Aiguo Mr. LIU Jipeng**

**Mr. HE Xuehui Mr. HUANG Yajun**

*Independent Non-executive Directors*



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from Challenge Capital Management Limited to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions (as defined below), which has been prepared for the purpose of inclusion in this circular.*



信溢投資策劃有限公司  
**CHALLENGE CAPITAL MANAGEMENT LIMITED**

3/F, Kailey Tower,  
16 Stanley Street,  
Central, Hong Kong

20 February 2019

*To: The Independent Board Committee and  
the Independent Shareholders of  
China Tonghai International Financial Limited*

Dear Sirs,

### **RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the continuing connected transactions which include the Connected Dealings Services and the Connected Margin Loans (the “**Continuing Connected Transactions**”) for the period from 1 April 2019 to 31 December 2021 and the respective proposed annual caps thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 20 February 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

The Connected Dealings Services and the Connected Margin Loans will be provided to the Connected Clients by China Tonghai Securities, a wholly-owned subsidiary of the Company. Such transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratios (as defined under the Listing Rules) in respect of the Connected Dealings Services and the Connected Margin Loans exceed 5% and the amount of the Proposed Annual Caps are more than HK\$10,000,000, the Connected Dealings Services and the Connected Margin Loans are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Connected Clients and their associates are required to abstain from voting at the SGM on the relevant resolutions in respect of the Proposed Annual Caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee comprising all of the independent non-executive Directors has been established to consider and advise the Independent Shareholders as to whether the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and whether the Continuing Connected Transactions and the Proposed Annual Caps are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of such matters at the SGM. We, Challenge Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We have not acted as a financial adviser or independent financial adviser to the Company, the Connected Clients or any of their respective associates within the last two years. We are independent from and not connected with the Company, the Connected Clients, or any of their respective associates. Accordingly, we are considered eligible to give independent advice on the Continuing Connected Transactions. Apart from normal professional fees payable to us for our service to the Company in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company, the Connected Clients or any of their respective associates.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts, opinions, views, and representations provided or expressed to us by the Company or its management. We have assumed that all information, facts and representations contained or referred to in the Circular, and the information, facts, opinions, views, and representations provided or expressed by the Company or its management, are true, accurate and complete in all material respects as at the date of the Circular and that they may be relied upon in formulating our opinion.

We have also assumed that all opinions, views and statements of intention or belief provided or expressed by the Directors, management, advisors and representatives of the Company have been arrived at after due and careful enquiries. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to suspect that any material information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Company, the Directors, and the management, advisors, and representatives of the Company nor have we conducted independent detailed investigation

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

All Directors jointly and severally accept full responsibility for the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Continuing Connected Transactions, we have considered the following principal factors and reasons:

**1. The background to, the reasons for, and benefits of the Continuing Connected Transactions**

The Group is principally engaged in (i) discretionary and non-discretionary dealing services for securities, futures and options, securities placing and underwriting services, margin financing and money lending services, insurance broking and wealth management services; (ii) corporate finance advisory and general advisory services; (iii) fund management, discretionary portfolio management and portfolio management advisory services; (iv) financial media services; and (v) investing and trading of various investment products.

In the course of its ordinary business, the Group has been from time to time conducting continuing connected transactions with connected persons of the Company. Indeed, the Group has been conducting the Continuing Connected Transactions in relation to the Connected Dealings Services and the Connected Margin Loans with the connected persons of the Company through China Tonghai Securities (formerly known as Oceanwide Securities Company Limited and, prior to that, Quam Securities Company Limited) for over 15 years.

The respective existing annual caps of the Continuing Connected Transactions for the three years ending 31 March 2019 were approved at the special general meeting of the Company held on 19 May 2016 by the then independent shareholders of the Company and will expire on 31 March 2019. The Group intends to continue to conduct the Continuing Connected Transactions and the Company proposes to renew the respective annual caps of the Continuing Connected Transactions for the period from 1 April 2019 to 31 December 2021.

Given the Group's principal business activities and the nature of the Continuing Connected Transactions, the Company considers that the Continuing Connected Transactions and the renewal of the annual caps in relation thereto is for business purpose and the Connected Dealings Services and the Connected Margin Loans fall within the ordinary and usual course of business of the Group. In addition, as stated in the Letter from the Board, additional income will be generated from the provision of the Connected Dealings Services and the Connected Margin Loans and the terms of the Connected Dealings Services, including the Connected Dealings Fees, shall be no less favourable to the Group than those applied to Independent Third Parties, the Company is of the view that the Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole.

In light of the above, we concur with the view of the Company that the conducting of the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

## **2. Principal terms of the Continuing Connected Transactions**

For the purpose of the provision of the futures dealing services, securities dealing services and margin financing, the Company has confirmed that clients (including the Connected Clients) of China Tonghai Securities will be required to enter into a standard account opening agreement with China Tonghai Securities in the form required from time to time by it and also clients (including the Connected Clients) of China Tonghai Securities requiring margin financing will also be required to enter into a standard authority standing letter with China Tonghai Securities in the form required from time to time by it.

Regarding the aforementioned standard account opening agreement adopted by China Tonghai Securities for all of its securities and futures dealing services and margin financing clients, we noted that no specific expiry dates are stipulated but instead a clause of termination is included in such standard account opening agreements, which provides that the contracting parties may terminate such agreements at any time by giving the other party a written notice in advance of certain number of days.

We have reviewed 3 sample account opening agreements for securities and futures dealing services and margin financing adopted by other securities firms and, similar to the account opening agreements adopted by China Tonghai Securities, we noted that no specific expiry dates were stipulated but instead, a clause of termination is included which will allow either party to terminate the agreement by serving to the other party a written notice in advance of a stipulated number of days. As such, we concur with the view of the Company that it is a normal market practice for brokerage services providers in Hong Kong to enter into account opening agreements of similar nature as the Connected Dealings Services with clients without a specific expiry date but with a termination clause by serving notice in advance of certain number of days.

As stated in the Letter from the Board, we also note the following:

The Connected Dealings Services comprise of the Connected Futures Dealings, the Connected Securities Dealings and the Margin Financing Arrangements as follows:

***(i) Connected Futures Dealings***

Futures dealings is one of the principal businesses of China Tonghai Securities, an indirect wholly-owned subsidiary of the Company. China Tonghai Securities charges its clients commissions per futures contract, which vary according to the type of futures contract and the futures exchange on which it is traded, ranging from HK\$0.75 to HK\$489 per contract. For Hang Seng Futures product trading in the Hong Kong Futures Exchange, the commissions for day trading normally ranging from HK\$10 to HK\$30 per contract. The commissions per futures contract are determined with reference to the then prevailing commissions of futures market.

The Connected Clients trade futures contracts through China Tonghai Securities from time to time. In return, China Tonghai Securities charges them the Futures Dealings Fees. The Futures Dealings Fees are commissions based on the number of futures contracts multiplied by the applicable commission rates.

***(ii) Connected Securities Dealings***

China Tonghai Securities also offers securities dealing services. China Tonghai Securities charges its clients commissions based on the consideration of the securities traded, which vary according to the stock exchange on which it is traded, ranging from 0.005% to 2.75%. For Hong Kong equities, the commission rates normally range from 0.08% to 0.25%. The commission rates are determined with reference to the then prevailing commission rates of stock market, the major securities brokerage firms in Hong Kong and taking into consideration of trading volume of the clients.

The Connected Clients trade securities through China Tonghai Securities from time to time. In return, China Tonghai Securities charges them the Securities Dealings Fees. The Securities Dealings Fees are commissions based on the consideration of the transactions multiplied by the applicable commission rates.

***(iii) Margin Financing Arrangements***

China Tonghai Securities offers share margin financing to its clients in respect of their securities dealings through China Tonghai Securities. China Tonghai Securities charges its clients interests on the advances made in respect of the amount of share margin financing. The interest rate charged on the advances made is calculated on the basis of 1% to 5% above the prime

rate as quoted from time to time by a principal banker of the Group. The interest rate shall be determined with reference to credit worthiness, trading record and quality of collaterals provided by the clients and in accordance with the policy of China Tonghai Securities from time to time. China Tonghai Securities provides margin financing to certain Connected Clients. In return, China Tonghai Securities charges them the Financing Interests. The Financing Interests are interests based on the total outstanding margin loans advanced multiplied by the applicable interest rates.

Pursuant to the standard client agreement between China Tonghai Securities and all of its margin financing clients who are Independent Third Parties and the Connected Clients, in the occurrence of an event of default, China Tonghai Securities shall be entitled to, among other things, sell or otherwise realise the whole or any part (as selected by China Tonghai Securities) of the collateral as to when and how and at such price and on such terms as China Tonghai Securities shall think fit, and to apply the net proceeds in discharging the indebtedness owing by such client to China Tonghai Securities. The Connected Clients and other margin financing clients who are Independent Third Parties are subject to the same margin financing ratio as published on the website of China Tonghai Securities from time to time, which are primarily determined with reference to the financing policies of China Tonghai Securities.

As stated in the Letter from the Board, the Connected Dealings Fees (which include the Futures Dealings Fees, Securities Dealing Fees and Financing Interests) shall be determined in accordance with the aforesaid pricing mechanisms that apply to all clients and the terms of the Connected Dealings Services, including the Connected Dealing Fees, shall be no less favourable to the Group than those apply to Independent Third Parties.

With respect to the Connected Futures Dealings, we have reviewed 5 sample account opening agreements entered into between China Tonghai Securities with the Connected Clients and noted that these are the standard account opening agreements of China Tonghai Securities for its futures dealing clients. We have also obtained and reviewed 10 sample statements of account with futures dealings issued during the Historical Period by China Tonghai Securities to the Connected Clients and independent third party clients, respectively, and also noted that the commission rates charged by China Tonghai Securities to the Connected Clients for the same type of futures contract were the same as or higher than the commission rates charged to the independent third party clients for the corresponding period and, therefore, no less favourable to the Group than those charged to independent third party clients.

With respect to the Connected Securities Dealings, we have reviewed 5 sample account opening agreements entered into between China Tonghai Securities with the Connected Clients and noted that these are the standard account opening agreements of China Tonghai Securities for its securities dealing



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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clients. We have also obtained and reviewed 10 sample statements of account with securities dealings issued during the Historical Period by China Tonghai Securities to the Connected Clients and independent third party clients, respectively, and also noted that the commission rates charged by China Tonghai Securities to the Connected Clients for securities traded on the same exchange were the same as or higher than the commission rates charged to the independent third party clients for the corresponding period and, therefore, no less favourable to the Group than those charged to independent third party clients.

With respect to the Margin Financing Arrangements, we have reviewed 5 sample accounts opening agreements together with the relevant standing authority letters entered into between China Tonghai Securities with the Connected Clients and noted that these are the standard account opening agreements and standing authority letters of China Tonghai Securities for its margin clients. We have also obtained and reviewed 10 sample statements of account with margin financing issued during the Historical Period by China Tonghai Securities to the Connected Clients and independent third party clients, respectively, and also noted that the interest rates charged by the China Tonghai Securities to the Connected Clients for share margin financing were the same as or higher than the interest rates charged to the independent third party clients for the corresponding period and, therefore, no less favourable to the Group than those charged to independent third party clients.

As stated in the Letter from the Board, the Group has established pricing policies for the fees charged in respect of dealings in securities, future contracts and providing share margin financing arrangements. The Securities Dealings Fees, Futures Dealings Fees and Financing Interests charged by the Group against the Connected Clients are set to be within the same range applied to Independent Third Parties. Any proposed change to such pricing policies applied to the Connected Clients will be conformed within the normal business range applied to Independent Third Parties and shall be no less favourable to the Group than those apply to Independent Third Parties. The Group will also, from time to time, review whether commissions and margin loans' interest rates charged to Independent Third Parties by the Group are consistent with those charged by other service providers in the same industry, given the same nature and extent of services.

As stated in the Letter from the Board, the Group maintains a list of connected parties in connection with the Connected Dealings Services and the Connected Margin Loans. For the Connected Dealings Services, Responsible Officer ("RO") of Overall Management Oversight ("OMO") will review, whether or not the Connected Dealings Fees would exceed the relevant annual caps. For Connected Margin Loans, the head of credit department will review, whether or not the aggregate amount of margin loans to the Connected Clients (and the maximum outstanding balance of the Connected Margin Loans) would exceed the relevant annual caps. In particular, the head of the credit department will review

each margin loan application received from the Connected Clients and will grant approval on such margin loan only if the aggregate amount of margin loans to the Connected Clients will not exceed the relevant annual caps upon granting the approval of such margin loans. A designated staff in the finance department would generate the actual usage of the Connected Dealings Fees and balance of the Connected Margin Loans monthly to review whether the usage close to the relevant annual caps and would inform the RO of OMO and the head of credit department if it would be the case.

The independent non-executive Directors will perform an annual review pursuant to Rule 14A.55 of the Listing Rules and confirm in the annual reports of the Company whether the Connected Dealings Services and the Connected Margin Loans were conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. We have reviewed the confirmation letter from the independent non-executive Directors to the Board for the year ended 31 March 2017 and for the nine months ended 31 December 2017, and noted that the independent non-executive Directors have reviewed and confirmed that the Continuing Connected Transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to Independent Third Parties; and (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

The Company's auditors will also issue a letter to the Board containing their findings and conclusions confirming whether anything has come to their attention that causes them to believe that the Connected Dealings Services and the Connected Margin Loans (i) have not been approved by the Board; (ii) were not, in all material aspects, in accordance with the pricing policies of the Group; (iii) were not conducted, in all material aspects, in accordance with the agreements in respect of the Connected Dealings Services and the Connected Margin Loans; and (iv) have exceeded the corresponding annual caps in accordance with Rule 14A.56 of the Listing Rules. We have also reviewed the unqualified letter prepared and issued by the auditor of the Company for the year ended 31 March 2017 and for the nine months ended 31 December 2017 containing its findings and conclusions in accordance with Rule 14A.56 of the Listing Rules in respect of the Continuing Connected Transactions. As confirmed by the Company, the Company will continue to comply with the relevant annual review requirements under the Listing Rules on an on-going basis.

Having considered the above, we are of the view that the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.



### 3. Proposed Annual Caps

#### *(i) Connected Dealings Services*

As disclosed in the Letter from the Board, the Proposed Annual Caps for the Connected Dealings Services have been determined after taking into consideration of the following, among other things: (i) the historical amounts of the securities and futures dealings services provided by the Group, after taking into consideration of the transactions with the Connected Clients for each of the two years ended 31 March 2017 and for the period from 1 April 2017 to 31 December 2017 and from 1 January 2018 to 30 November 2018; (ii) the anticipated demand for the Connected Dealings Services over the next three years based on the discussions with the major Connected Clients; (iii) the possible increase in the number of the Connected Clients due to expansion of the Group; and (iv) a buffer to allow flexibility for the Group to provide the Connected Dealings Services to the Connected Clients to cater for the possible increase in demand for the Connected Dealings Services that may arise as a result of any increase in volatility of the stock markets and futures markets in the future.

The table below sets out the historical transaction amounts for the Connected Dealing Services for the year ended 31 March 2017, the nine months ended 31 December 2017, and the eleven months ended 30 November 2018 (the “**Historical Period**”), the historical annual caps for the Connected Dealings Services for each of the three years ending 31 March 2019 (the “**Historical Dealing Cap(s)**”), and the Proposed Annual Caps in respect of the Connected Dealings Services for the nine months ending 31 December 2019 and for each of the two years ending 31 December 2021 (the “**Proposed Dealing Cap(s)**”):

	Historical amounts			Historical annual caps For each of	Proposed annual caps		
	For the year ended 31 March 2017 HK\$	For the nine months ended 31 December 2017 <sup>(1)</sup> HK\$	For the eleven months ended 30 November 2018 HK\$	the three years ending 31 March 2019 HK\$	For the nine months ending 31 December 2019 HK\$	For the year ending 31 December 2020 HK\$	For the year ending 31 December 2021 HK\$
Connected Dealings Fees	2,568,000	966,000	1,709,000	100,000,000	22,500,000	30,000,000	30,000,000

*Note 1:* On 28 April 2017, the Company had changed its financial year end date from 31 March to 31 December. Accordingly, the audited financial statements of the Group subsequent to the financial year ended 31 March 2017 covered the period of nine months from 1 April 2017 to 31 December 2017.

As illustrated in the table above, the Historical Dealing Caps are substantially higher than the historical transaction amounts during the Historical Period on a pro-rata basis. In assessing the fairness and reasonableness of the Proposed Dealing Caps, we have discussed with the Company regarding the principal factors considered in determining such annual caps. As advised by the Company, the historical transaction amounts during the

Historical Period were lower than the Historical Dealing Caps mainly due to the Connected Clients' own trading preferences during that period of time as the demand for the Connected Dealings Services depends on their perception of the overall stock market sentiment. Therefore, reference to the previous utilisation track records was not the sole key criteria in setting the Proposed Annual Caps. As such, we understand that the Company has carried out further discussions with the major Connected Clients to obtain a general understanding of their investment plans and future trading needs and demand for the Connected Dealings Services over the next three years in determining the Proposed Dealing Caps. We noted that the Proposed Dealing Caps caters for 35 Connected Clients including substantial Shareholders, executive Directors, directors of subsidiaries of the Company, and their respective associates. Although we understand from the Company that the Historical Dealing Caps also catered for similar number of Connected Clients, we noted that the Proposed Dealing Caps have already been adjusted downwards substantially from the Historical Dealing Caps. In addition, we noted that the Company has taken into account the possibility of an increase in the number of the Connected Clients due to expansion of the Group. In this regard, we noted from the interim report of the Company for the six months ended 30 June 2018 (the **"2018 Interim Report"**) that, it is the strategy of the Group to, among other things, grasp the opportunity to enter into merger and acquisitions in order to bring in growth other than organic growth as well as establish possible regional presences when it arises.

In view of the nature of the business of the Group, the Directors consider that it is in the interests of the Group to provide a buffer to allow flexibility for the Group to provide the Connected Dealings Services to the Connected Clients to cater for the possible increase in demand for the Connected Dealings Services that may arise as a result of any increase in volatility of the stock markets and futures markets in the future. According to the website of the Hong Kong Exchanges and Clearing Limited, the HSI Volatility Index (**"VHSI"**) is an indicator of Hang Seng Index volatility, and thus of the Hong Kong stock market. We noted that the VHSI had increased from 14.24 percentage points as at 10 January 2017 to 20.43 percentage points as at 9 January 2019, representing an increase of approximately 44% over the two year period prior to and including the date of the announcement of the Company in relation to the Continuing Connected Transactions (the **"Announcement"**). We further noted that the VHSI has remained above the 20.00 percentage point level since 4 October 2018 until the date of the Announcement. Moreover, in view of the external uncertainties such as the trade war between China and the United States and the upcoming US interest rate hikes, the Company expects the volatility of the financial markets may further increase. In addition, we understand from the Directors that the demand for the Connected Dealings Services depends on various factors, including the trading volume in the Hong Kong stock and futures markets and the overall market sentiment. According to the statistics compiled by the Hong Kong Exchanges and Clearing Limited, the average daily turnover of the securities market for the years ended 31 December 2016, 2017 and 2018 amounted to approximately HK\$66.9 billion, HK\$88.2 billion, and HK\$107.4 billion (a record high), respectively, representing

an increase from 2016 to 2017 of approximately 32% and an increase from 2017 to 2018 of approximately 22%. The total turnover of the securities market for the years ended 31 December 2016, 2017 and 2018 reached approximately HK\$16.4 trillion, HK\$21.7 trillion, and HK\$26.4 trillion, respectively, representing an increase from 2016 to 2017 of approximately 32% and an increase from 2017 to 2018 of approximately 22%. Based on the above, we consider that it is reasonable to include a buffer to allow flexibility for the Group to provide the Connected Dealings Services to the Connected Clients to cater for the market conditions.

In addition, we noted that the Company has been providing the Connected Dealing Services to its connected clients with an annual cap of no less than HK\$30 million since March 2008. Given that the Connected Dealing Fees are of revenue nature and the provision of the Connected Dealings Services are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applied to Independent Third Parties, the Proposed Dealing Caps can enable the Company to capture additional business which, if they materialise, will be beneficial to the Company. Moreover, according to the annual report of the Company for the nine months ended 31 December 2017, revenue derived from the brokerage segment for the year ended 31 March 2017 and for the nine months ended 31 December 2017 amounted to approximately HK\$285.4 million and HK\$257.8 million respectively, of which the Proposed Dealing Caps for each of the two years ending 31 December 2021 and for the nine months ending 31 December 2019 represents approximately 11% and 9% respectively. On this basis, we concur with the Company that even if the business generated from the Connected Dealings Services reaches the Proposed Dealing Caps, it will not render the Company to be dependent upon the business generated from the Connected Clients.

Having considered the above and given that the Connected Dealing Fees are of revenue nature which can enable the Company to capture additional business from the Connected Clients for the benefit of the Company, we are of the view that the Proposed Dealing Caps is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

***(ii) Connected Margin Loans***

As stated in the Letter from the Board, the Proposed Annual Caps for the maximum daily outstanding balance of the Connected Margin Loans have been determined after taking into consideration of the following, among other things: (i) the historical maximum daily outstanding balances of margin financing advanced to the Connected Clients for the two years ended 31 March 2017, for the period from 1 April to 31 December 2017 and the eleven months ended 30 November 2018; (ii) the anticipated demand for the maximum amount of the Connected Margin Loans over the next three years based on the discussions with the major Connected Clients; (iii) the Group's current financial position; (iv) the possible increase in the number of the Connected Clients due to expansion of the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Group; and (v) a buffer to allow flexibility for the Group to provide the Connected Margin Loans to the Connected Clients to cater for the possible increase in demand for the Connected Margin Loans that may arise as a result of any increase in volatility of the stock markets in the future.

The table below sets out the historical maximum daily outstanding balance of the Connected Margin Loans during the Historical Period, the historical annual caps for the maximum daily outstanding balance of the Connected Margin Loans for each of the three years ending 31 March 2019 (the “**Historical Margin Loan Cap(s)**”), and the Proposed Annual Caps in respect of the maximum daily outstanding balance of the Connected Margin Loans for the nine months ending 31 December 2019 and for each of the two years ending 31 December 2021 (the “**Proposed Margin Loan Cap(s)**”):

	Historical amounts			Historical annual caps		Proposed annual caps	
	For the	For the nine	For the eleven	For each of		For the	For the
	year ended	months ended	months ended	the three	For the nine	year ending	year ending
	31 March	31 December	30 November	years ending	months ending	31 December	31 December
	2017	2017 <sup>(1)</sup>	2018	31 March	31 December	2020	2021
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Maximum daily outstanding balance of the Connected Margin Loans	44,083,000	23,600,000	51,367,000	100,000,000	116,000,000	116,000,000	116,000,000

*Note 1:* On 28 April 2017, the Company had changed its financial year end date from 31 March to 31 December. Accordingly, the audited financial statements of the Group subsequent to the financial year ended 31 March 2017 covered the period of nine months from 1 April 2017 to 31 December 2017.

In assessing the fairness and reasonableness of the Proposed Margin Loan Caps, we have discussed with the Company regarding the principal factors considered in determining such annual caps. Similar to the Proposed Dealing Caps, we understand that the Company has carried out discussions with the major Connected Clients to obtain a general understanding of their investment plans and future trading needs and demand for the Connected Margin Loans over the next three years in determining the Proposed Margin Loan Caps. As illustrated in the table above, we noted that the historical maximum outstanding daily balance for the Connected Margin Loans of approximately HK\$51.4 million for the eleven months ended 30 November 2018 accounted for more than half of the Historical Margin Loan Cap. In addition, we have been provided with information by the Company in respect of the largest maximum daily outstanding amount of the Connected Margin Loans utilised by each of the Connected Clients during the Historical Period and noted that the aggregate of such amount exceeded 70% of the Historical Margin Loan Cap.

Furthermore, we noted that the Company has taken into account (i) the possibility of an increase in the number of the Connected Clients due to expansion of the Group; (ii) a buffer to allow flexibility for the Group to provide the Connected Dealings Services to the Connected Clients to cater for the possible increase in demand for the Connected Margin Loans that may arise as a result of any increase in volatility of the stock markets and futures markets in the future; and (iii) we understand from the Directors that the demand for the Connected Dealings Services depends on various factors, including the trading volume in the Hong Kong stock and futures markets and the overall market sentiment. In this regard, please refer to the section headed “3. Proposed Annual Caps — (i) Connected Dealings Services” above for further details.

Under the Margin Financing Arrangements, China Tonghai Securities will charge the Financing Interest on the Connected Margin Loans advanced to the Connected Clients. Given that the provision of the Connected Margin Loans under the Margin Financing Arrangements are in the ordinary and usual course of business of the Group and the terms of the Margin Financing Arrangements are no less favourable to the Group than those applied to Independent Third Parties, the Proposed Margin Loan Caps will allow the Company to capture additional business which, if they materialise, will be beneficial to the Company as the Connected Margin Loans advanced to the Connected Clients will generate Financing Interests, which is of revenue nature.

In addition, we were given to understand from the Company that the provision of the Connected Margin Loans is subject to (i) the Proposed Margin Loan Caps; (ii) the sufficient value of the securities pledged as collateral in the Connected Client’s account with China Tonghai Securities in accordance with the internal policy of the Group from time to time applicable to its margin clients (including the Connected Clients); and (iii) the Group’s other internal policies and procedures applicable to its margin clients (including the Connected Clients). Moreover, we noted from the 2018 Interim Report that the Proposed Margin Loan Cap of HK\$116.0 million represents only about 5% of the total amount of outstanding loans advanced by the Group to its margin clients of approximately HK\$2,215.2 million as at 30 June 2018. We were also advised by the Company that the Connected Clients have no record of default in payment of the Connected Margin Loans during the Historical Period. We also noted from the Letter from the Board that the Company’s financial position has been strengthened over the past three years, as demonstrated by the increase in the Group’s net assets value from approximately HK\$608.0 million as at 31 March 2016 to approximately HK\$5,767.4 million as at 30 June 2018, representing an increase of more than eight folds, which was mainly attributable to the completion of the rights issue with net proceeds of approximately HK\$5,127.1 million in August 2017.

Having considered the above, we are of the view that the Proposed Margin Loan Caps is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the opinion that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group, on normal commercial terms, and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Proposed Annual Caps.

Yours faithfully,  
For and on behalf of  
**Challenge Capital Management Limited**  
**Jackson Woo**  
*Managing Director*

*Mr. Jackson Woo is a licensed person registered with the Securities and Futures Commission of Hong Kong to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance.*



**1. FINANCIAL INFORMATION**

The financial information of the Group the years ended 31 March 2015, 2016, 2017 and nine months ended 31 December 2017 were disclosed in the annual reports of the Company for the year ended 31 March 2015 (pages 57 to 143), year ended 31 March 2016 (pages 57 to 143), year ended 31 March 2017 (pages 70 to 155) and nine months ended 31 December 2017 (pages 61 to 168). The aforementioned financial information of the Group has been published on both the website of the Stock Exchange ([www3.hkexnews.hk](http://www3.hkexnews.hk)) and the website of the Company ([www.tonghaifinancial.com](http://www.tonghaifinancial.com)). Please refer to the hyperlinks as stated below:

2015 annual report:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2015/0706/LTN201507061231.pdf>

2016 annual report:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2016/0719/LTN20160719350.pdf>

2017 annual report (for the year ended 31 March 2017):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0720/LTN20170720602.pdf>

2017 annual report (for the nine months ended 31 December 2017):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0417/LTN201804171195.pdf>

**2. INDEBTEDNESS**

At the close of business on 31 December 2018, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the indebtedness of the Group was as follows:

Obligation under repurchase agreements, bank loans and note payables totalling approximately HK\$2,393,207,000, comprising:

- (a) unguaranteed obligations under repurchase agreement of approximately HK\$34,634,000, which were secured by corporate bonds of US\$5,400,000.

(b) bank loans, which were:

	<i>HK\$'000</i>
Secured and guaranteed by the Company*	1,164,341
Secured and guaranteed by the ultimate controlling Shareholder**	999,232
Unsecured and guaranteed by the Company	80,000
Unsecured and unguaranteed	<u>65,000</u>
	<u><u>2,308,573</u></u>

\* These bank loans were secured by marketable securities as at 31 December 2018 and the Company's guarantee. The marketable securities include securities collaterals provided by the margin clients to the Group.

\*\* These bank loans were secured by corporate bonds held by the Company as at 31 December 2018, certain Company's listed shares held by the immediate controlling Shareholder and certain fellow subsidiary's listed shares held by its immediate controlling shareholder. These bank loans were also guaranteed by the ultimate controlling Shareholder and a wholly-owned subsidiary of the Company.

(c) unsecured and unguaranteed note payables of approximately HK\$50,000,000.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases, hire purchases commitments (whether guaranteed, unguaranteed, secured or unsecured), guarantees or other material contingent liabilities at the close of business on 31 December 2018.

There had been no material changes in indebtedness or contingent liabilities of the Group since 31 December 2018 and up to Latest Practicable Date.

### 3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present financial resources and the borrowings, in the absence of unforeseen circumstances, the Group has sufficient working capital for at least twelve months from the date of this circular.



**4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

After the completion of the rights issue in 2017, the Group has significantly increased its capital base. The Group will take advantage of capital and adopt capital-based intermediary approach by utilising its capital to support and develop its fee-based businesses such as asset management, debt capital market, equity capital market and structured financing. The Group will continue to restructure institutional equity business to better support and develop the Group's corporate finance business. It aims to substantially increase the proportion of revenue from structured financing, corporate financing, asset management and investment and others businesses while improving the absolute amount of income derived from traditional brokerage and interest income business, so as to reduce its reliance on the latter. The Group will also grasp the opportunity to enter into merger and acquisition in order to bring in growth other than organic growth as well as establish possible regional presences when it arises.

**5. MATERIAL ADVERSE CHANGE**

The Directors confirm that there has been no material adverse change in the financial or trading position or outlook of the Group since 31 December 2017, the date to which the latest audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Interests of the Directors

As at the Latest Practicable Date, interests of the Directors and the chief executive of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the “**Model Code**”) to be notified to the Company and the Stock Exchange were as follows:

### *I. Long position in the Shares*

Name of Director	Capacity	Number of Shares held	Approximate percentage of shareholding in the Shares in issue (Note 1)
Mr. Kenneth LAM Kin Hing	Beneficial owner	113,022,833	1.82%
Mr. Bernard POULIOT	Beneficial owner	38,952,666	0.62%

**II. Long positions in the shares of associated corporations of the Company****(a) Oceanwide Holdings Co., Ltd. (“Oceanwide Holdings”)**

Name of Director	Capacity	Number of shares in Oceanwide Holdings	Approximate percentage of shareholding in Oceanwide Holdings (Note 2)
Mr. HAN Xiaosheng	Beneficial owner	3,500,000	0.06%
Mr. ZHANG Bo	Beneficial owner	510,000	0.009%
Mr. ZHANG Xifang	Beneficial owner	276,000	0.005%
Mr. LIU Hongwei	Beneficial owner	30,000	0.0005%
Mr. LIU Bing	Beneficial owner	90,000	0.001%
Mr. ZHAO Yingwei	Beneficial owner	200,000	0.003%
Mr. ZHAO Xiaoxia	Beneficial owner	183,500	0.003%

**(b) China Oceanwide Holdings Limited (“China Oceanwide”)**

Name of Director	Capacity	Number of shares in China Oceanwide	Approximate percentage of shareholding in China Oceanwide (Note 2)
Mr. LIU Jipeng	Beneficial owner	9,212,000	0.05%

**III. Interest in the debentures of the associated corporation of the Company**

Name of Director	Name of Associated Corporation	Nature of Interest	Amount of Debenture
Mr. Kenneth LAM Kin Hing	Oceanwide Holdings International Development III Co., Ltd.	Personal Interest	US\$5,000,000

*Notes:*

- The approximate percentage shown was the number of Shares the relevant Director was interested in expressed as a percentage of the total number of issued Shares as at the Latest Practicable Date.

2. The approximate percentage shown was the number of shares the relevant Director was interested in expressed as a percentage of the total number of issued shares of the relevant entity as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be 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 would be taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

#### Interest of the substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the issued voting shares capital of any other member of the Group:

#### Long positions in shares and underlying shares of the Company

Name of holder of Shares/ underlying Shares	Capacity	Number of Shares and underlying Shares held	Approximate percentage of total interests in the Shares in issue (Note 11)
Mr. LU Zhiqiang	Interest of controlled corporations	4,495,254,732 (Note 1)	72.53%
Ms. HUANG Qiongzi	Interest of controlled corporations	4,495,254,732 (Note 1)	72.53%

Name of holder of Shares/ underlying Shares	Capacity	Number of Shares and underlying Shares held	Approximate percentage of total interests in the Shares in issue (Note 11)
Tohigh Holdings Co., Ltd.* (通海控股有限公司)	Interest of controlled corporations	4,495,254,732 (Note 2)	72.53%
Oceanwide Group Co., Ltd.* (泛海集團有限公司)	Interest of controlled corporations	4,495,254,732 (Note 3)	72.53%
China Oceanwide Holdings Group Co., Ltd.* (中國泛 海控股集團有限公司)	Interest of controlled corporations	4,495,254,732 (Note 4)	72.53%
Oceanwide Holdings Co., Ltd.* (泛海控股股份有限 公司)	Interest of controlled corporations	4,495,254,732 (Note 5)	72.53%
China Oceanwide Group Limited	Interest of controlled corporations	4,495,254,732 (Note 5)	72.53%
Oceanwide Holdings International Financial Development Co., Ltd (“Oceanwide Holdings IF”)	Beneficial owner	4,495,254,732 (Note 5)	72.53%
Haitong Securities Co., Ltd.	Interest of controlled corporation	4,100,000,000 (Note 6)	66.16%
Haitong International Holdings Limited	Interest of controlled corporation	4,100,000,000 (Note 7)	66.16%
Haitong International Securities Group Limited	Interest of controlled corporation	4,100,000,000 (Note 8)	66.16%
Haitong International Investment Solutions Limited	Security interest in Shares	4,100,000,000 (Note 9)	66.16%

\* For identification purpose only

*Notes:*

1. Mr. LU Zhiqiang (盧志強) and Ms. HUANG Qiongzi (黃瓊姿) (the spouse of Mr. LU Zhiqiang (盧志強)) together hold more than one-third of the voting power at general meetings of Tohigh Holdings Co., Ltd.\* (通海控股有限公司). By virtue of the SFO, Mr. LU Zhiqiang (盧志強) and Ms. HUANG Qiongzi (黃瓊姿) are deemed to be interested in all the Shares in which Tohigh Holdings Co., Ltd.\* (通海控股有限公司) is interested.
2. Tohigh Holdings Co., Ltd.\* (通海控股有限公司) holds the entire issued share capital of Oceanwide Group Co., Ltd.\* (泛海集團有限公司). By virtue of the SFO, Tohigh Holdings Co., Ltd.\* (通海控股有限公司) is deemed to be interested in all the Shares held by Oceanwide Group Co., Ltd.\* (泛海集團有限公司).
3. Oceanwide Group Co., Ltd.\* (泛海集團有限公司) holds 98% interest in the issued share capital of China Oceanwide Holdings Group Co., Ltd.\* (中國泛海控股集團有限公司). By virtue of the SFO, Oceanwide Group Co., Ltd.\* (泛海集團有限公司) is deemed to be interested in all the Shares held by China Oceanwide Holdings Group Co., Ltd.\* (中國泛海控股集團有限公司).
4. China Oceanwide Holdings Group Co., Ltd.\* (中國泛海控股集團有限公司) directly and indirectly holds 70.68% interest in the issued share capital of Oceanwide Holdings Co., Ltd.\* (泛海控股股份有限公司). By virtue of the SFO, China Oceanwide Holdings Group Co., Ltd.\* (中國泛海控股集團有限公司) is deemed to be interested in all the Shares held by Oceanwide Holdings Co., Ltd.\* (泛海控股股份有限公司).
5. Oceanwide Holdings IF is a wholly-owned subsidiary of China Oceanwide Group Limited, which in turn is a wholly-owned subsidiary of Oceanwide Holdings Co., Ltd.\* (泛海控股股份有限公司). By virtue of the SFO, China Oceanwide Group Limited and Oceanwide Holdings Co., Ltd.\* (泛海控股股份有限公司) are deemed to be interested in 4,495,254,732 Shares.
6. Haitong Securities Co., Ltd held 100% interest in the issued share capital of Haitong International Holdings Limited. By virtue of the SFO, Haitong Securities Co., Ltd is deemed to be interested in all the Shares held by Haitong International Holdings Limited.
7. Haitong International Holdings Limited indirectly held 63.08% interest in the issued share capital of Haitong International Securities Group Limited. By virtue of the SFO, Haitong International Holdings Limited is deemed to be interested in all the Shares held by Haitong International Securities Group Limited.
8. Haitong International Investments Solutions Limited is an indirect subsidiary of Haitong International Securities Group Limited. By virtue of the SFO, Haitong International Securities Group Limited is deemed to be interested in all the Shares held by Haitong International Investments Solutions Limited.
9. According to the announcement of Oceanwide Holdings dated 5 December 2018, Oceanwide Holdings IF issued to Haitong International Investment Solutions Limited the short term notes in the principal amount up to HK\$1,100,000,000 pursuant to which Oceanwide Holdings IF has pledged 4,100,000,000 Shares (representing 66.16% of the issued share capital of the Company as at the Latest Practicable Date) to Haitong International Investment Solutions Limited.

\* For identification purpose only

10. The following entities, namely Tisé Media Fund LP and China Alliance Properties Limited (and its associates), disclosed to the Company that they were, directly or indirectly interested or deemed to be interested in 5% or more of the Shares on 28 August 2015 pursuant to the subscription agreement entered among the Company, CMBC International Holdings Limited (“CMBCI”), and the co-investors, namely New Hope Global Holding Co., Limited, United Energy International Trading Limited, Mind Power Investments Limited, China P&I Services (Hong Kong) Limited, China Alliance Properties Limited, Good First International Holding Limited, Divine Unity Limited, Tisé Media Fund LP, Novel Well Limited, Ristora Investments Limited and Insight Multi-Strategy Funds SPC for the account of Insight Phoenix Fund III SP (together “Co-Investors”) on 28 August 2015 which CMBCI and the Co-Investors had conditionally agreed to subscribe for an aggregate of 23,054,875,391 Shares at the subscription price of HK\$0.565 per Subscription Share (the “**First Subscription Agreement**”).

As disclosed in the announcement of the Company dated 1 March 2016, the First Subscription Agreement ceased to be effective as of 28 February 2016 as certain conditions precedent under the First Subscription Agreement remained outstanding as at the long stop date. Accordingly, as at the Latest Practicable Date, as far as the Directors were aware, CMBCI and the Co-Investors had ceased to have any interests in the Shares.

11. The approximate percentage shown was the number of Shares the relevant company/person was interested in expressed as a percentage of the number of issued Shares as at the Latest Practicable Date.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no person (other than a Director and chief executive of the Company) had or was deemed or taken to have an interest or a short position in the Shares or the 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 or was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other member of the Group.



### 3. COMPETING INTERESTS

As at the Latest Practicable Date, the following Directors had interests in the following businesses (apart from the businesses of the Company or its subsidiaries) conducted through the companies named below, their subsidiaries, associated companies or other investment forms which are considered to compete or be likely to compete, either directly or indirectly, with the principal businesses of the Group conducted during the year and are required to be disclosed pursuant to Rule 8.10(2) of the Listing Rules:

Name	Investing entity	Nature of interest	Nature of business considered to compete or likely to compete with the business of the Group
Mr. ZHANG Bo	Minsheng Securities Co., Ltd* (民生證券股份有限公司)	director	Securities business
Mr. ZHANG Xifang	Minsheng Securities Co., Ltd* (民生證券股份有限公司)	director	Securities business
Mr. LIU Bing	Minsheng Securities Co., Ltd* (民生證券股份有限公司)	director	Securities business
Mr. FENG Henian	Minsheng Securities Co., Ltd.* (民生證券股份有限公司)	director	Securities business

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

The Directors are aware of their fiduciary duties and will act honestly and in good faith in the interests of the Company and will avoid any potential conflict of interests and duties.

### 4. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors had any interests in contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole.

### 5. INTERESTS IN ASSETS

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

\* For identification purpose only

## 6. DIRECTORS' SERVICE CONTRACTS

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

## 7. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any members of the Group.

## 8. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) had been entered into by the Company or any of its subsidiaries within two years preceding the issue of this circular and ending on the Latest Practicable Date, which are or may be material in relation to the business of the Company as a whole:

- (i) the subscription agreement dated 31 December 2018 entered into among Well Foundation Company Limited (an indirect wholly-owned subsidiary of the Company), Filled Converge Limited and China Ruifeng Renewable Energy Holdings Limited (the “**Issuer**”) in relation to the subscription of the 8% secured redeemable convertible bonds due 2021 to be issued by the Issuer in the principal amount of HK\$19,612,000 and HK\$294,183,000 respectively;
- (ii) the supplemental agreement dated 22 October 2018 entered into among the lender, the borrower and the arranger in relation to the extension of a loan in the amount of HK\$270,000,000 to 22 October 2019;
- (iii) the underwriting agreement dated 18 December 2017 entered into among the Company, Oceanwide Holdings IF, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, China Oceanwide International Group Limited (renamed as Chang Xin International Group Limited) and Oceanwide Holdings Co., Ltd.\* (泛海控股股份有限公司) in relation to the issue of 16,592,131,253 rights shares at HK\$1.10 per share, the supplemental agreements dated 23 January 2018, 9 March 2018, 28 March 2018 and 13 June 2018 and the deed of termination dated 10 September 2018;
- (iv) the underwriting agreement dated 28 April 2017 entered into among the Company, Oceanwide Holdings IF and Guotai Junan Securities (Hong Kong) Limited in relation to the issue of 4,666,536,915 rights Shares at HK\$1.10 per Share;

\* For identification purpose only

- (v) the facility agreement dated 28 August 2017 entered into among the lenders (including the Arranger), borrowers, guarantors and the agent in relation to the provision of a loan facility of HK\$5,810,000,000;
- (vi) the agreement dated 20 September 2017 entered into between China Tonghai Asset Management Limited (formerly known as Oceanwide Asset Management Limited) (the “**Management Company**”) and Oceanwide Equity Investment Management Co., Ltd (泛海股權投資管理有限公司) (the “**Adviser**”) in relation to appointment of the Adviser to act as the investment adviser of the Management Company;
- (vii) the agreement dated 20 September 2017 entered into between the Management Company and Oceanwide Millenium Limited, being the general partner, in relation to appointment of the Management Company to act as the manager of Oceanwide Pioneer Limited Partnership (the “**Fund**”);
- (viii) the agreement dated 20 September 2017 executed by China Tonghai Ventures (BVI) Limited (formerly known as Oceanwide Ventures (BVI) Limited) in relation to the subscription of interest in the Fund;
- (ix) the framework services agreement entered into between the Company and China Oceanwide Holdings Limited on 21 September 2017 in relation to the provision and receipt of various services, and conducting of investment and lending transactions between the parties;
- (x) the framework services agreement entered into between the Company and Oceanwide Holdings Co., Ltd.\* (泛海控股股份有限公司) on 21 September 2017 in relation to the provision and receipt of various services, and conducting of investment and lending transactions between the parties; and
- (xi) the framework services agreement entered into between the Company and Tohigh Holdings Co., Ltd.\* (通海控股有限公司) on 21 September 2017 in relation to provision and receipt of various services, and conducting of investment and lending transactions between the parties.

Save as disclosed above, as at the Latest Practicable Date, no contract (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) had been entered into by any members of the Group within two years preceding the issue of this circular and ending on the Latest Practicable Date and are or may be material.

\* For identification purpose only

**9. CONSENT AND QUALIFICATION OF THE EXPERT**

The qualification of the expert who has given opinions in this circular is as follow:

<b>Name</b>	<b>Qualifications</b>
Challenge Capital	A corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, Challenge Capital:

- (a) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group;
- (b) did not have any direct or indirect interest in any asset which had been acquired, disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

**10. GENERAL**

- (i) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (ii) The head office and principal place of business in Hong Kong of the Company is located on 18th and 19th Floors, China Building, 29 Queen's Road Central, Hong Kong.
- (iii) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The company secretary of the Company is Ms. Hortense CHEUNG Ho Sze who is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in United Kingdom.

This circular has been prepared in both English and Chinese. In the event of any discrepancy, the English text shall prevail over the Chinese text.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection on 18th Floor, China Building, 29 Queen's Road Central, Hong Kong during normal business hours on business days from the date of this circular up to and including 8 March 2019:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the annual reports of the Company for the year ended 31 March 2015, year ended 31 March 2016, year ended 31 March 2017 and for the nine months ended 31 December 2017;
- (iii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 22 of this circular;
- (iv) the letter from Challenge Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 23 to 36 of this circular;
- (v) the account opening agreements of the Connected Clients;
- (vi) the written consent referred to in the paragraph headed "Consent and qualification of the expert" in this appendix; and
- (vii) the material contracts referred to in the paragraph headed "Material contracts" in this appendix.



**中國通海國際金融有限公司**  
**CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 952)**

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that a special general meeting of China Tonghai International Financial Limited (the “**Company**”) will be held at East and West Rooms, 23/F, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 8 March 2019 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 20 February 2019.

**1. “THAT**

- (a) the renewal of the annual caps in respect of the Connected Dealings Services of HK\$22.5 million, being the maximum annual value of such transactions from 1 April 2019 to 31 December 2019; HK\$30 million for the two years ending 31 December 2020 and 31 December 2021 respectively, be and is hereby approved, confirmed and ratified in all respects; and
- (b) any one director of the Company (the “**Director**”) be and is hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Director may be necessary, appropriate, desirable or expedient to implement and/or give effect to the renewed caps set in respect of Connected Dealings Services, as aforesaid.”

**2. “THAT**

- (a) the renewal of the annual caps in respect of the Connected Margin Loans of HK\$116 million, being the maximum daily outstanding balance of such transactions from 1 April 2019 to 31 December 2019 and for the two years ending 31 December 2020 and 31 December 2021 respectively, be and is hereby approved, confirmed and ratified in all respects; and

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## NOTICE OF SGM

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- (b) any one Director be and is hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Director may be necessary, appropriate, desirable or expedient to implement and/or give effect to the renewed caps set in respect of Connected Margin Loans, as aforesaid.”

### 3. “THAT

- (a) the entering into the Second Supplemental Agreements and the transactions contemplated thereunder and in connection therewith, be and is hereby approved, confirmed and ratified in all respects; and
- (b) any one Director be and is hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Director may be necessary, appropriate, desirable or expedient to implement and/or give effect to the entering into the Second Supplemental Agreements, as aforesaid.”

By order of the Board of  
**China Tonghai International Financial Limited**  
**HAN Xiaosheng**  
*Chairman*

Hong Kong, 20 February 2019

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head Office and Principal  
Place of Business in Hong Kong:*  
18th and 19th Floors  
China Building  
29 Queen’s Road Central  
Hong Kong

#### Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the Bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company but must be present in person to represent the member.
2. Completion and deposit of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish. In the event that you attend the meeting after having deposited a form of proxy, your form or forms of proxy shall be deemed to be revoked.
3. In the case of joint holders, any one of such holders may attend and vote at the meeting either personally or by proxy, but if more than one of such joint holders be present at the meeting personally or by proxy, the vote of the said persons so present whose name stands first on the register of members in respect of the joint holding shall be accepted to the exclusion of the votes of the other joint holders.



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4. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation, either under common seal, or under the hand of any officer or attorney or other person, duly authorised; and the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority must be deposited at the office of the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.
5. The Directors has fixed 4:30 p.m. on Monday, 4 March 2019 as the record time and date for ascertaining Shareholders' entitlement to attend and vote at the meeting. All transfers of shares accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at the address set out at Note (4) above not later than 4:30 p.m. on Monday, 4 March 2019.
6. If a tropical cyclone warning signal no. 8 or above is in force in Hong Kong at any time between 8:00 a.m. to 11:00 a.m. on Friday, 8 March 2019, the special general meeting will not be held on that day but will be automatically postponed. The Company will publish an announcement on its website ([www.tonghaifinancial.com](http://www.tonghaifinancial.com)) and on the website of Hong Kong Exchanges and Clearing Limited ([www3.hkexnews.hk](http://www3.hkexnews.hk)) to notify members of the Company of the date, time and location of the rescheduled meeting.
7. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, only the relevant Independent Shareholders will be entitled to vote by way of a poll at the meeting for the resolutions numbered 1 and 2 set out above.

*As at the date of this notice, the board of directors of China Tonghai International Financial Limited comprises six executive directors, namely Mr. HAN Xiaosheng, Mr. ZHANG Bo, Mr. ZHANG Xifang, Mr. FENG Henian, Mr. LIU Hongwei and Mr. Kenneth LAM Kin Hing; four non-executive directors, namely Mr. Bernard POULIOT, Mr. LIU Bing, Mr. ZHAO Yingwei and Mr. ZHAO Xiaoxia; and five independent non-executive directors, namely Mr. Roy LO Wa Kei, Mr. KONG Aiguo, Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun.*