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22 November 2024

To the Haitong IBC

Haitong Securities Co., Ltd.

15/F, One Island South
2 Heung Yip Road
Wong Chuk Hang
Hong Kong

Dear Sir or Madam,

**(1) PROPOSED MERGER AND SHARE EXCHANGE OF
GUOTAI JUNAN SECURITIES AND HAITONG SECURITIES
(2) MAJOR TRANSACTION AND SPECIFIC MANDATE FOR
GUOTAI JUNAN SECURITIES TO ISSUE A SHARES AND
H SHARES FOR THE PROPOSED MERGER
(3) CONNECTED TRANSACTION AND SPECIFIC MANDATE FOR THE
CONCURRENT ISSUANCE OF A SHARES BY GUOTAI JUNAN SECURITIES
UNDER THE PROPOSED PLACEMENT
AND
(4) SPECIAL DEAL**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Haitong IBC in respect of the Proposed Merger (including the Special Deal) and the Proposed Placement. Our appointment as the independent financial adviser has been approved by the Haitong IBC as set out in Joint Announcement dated 9 October 2024. Details of the Proposed Merger (including the Special Deal) and the Proposed Placement are set out in the “Terms and information of the Proposed Merger and the Proposed Placement” contained in the Joint Circular dated 22 November 2024, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Joint Circular unless the context requires otherwise.

Proposed Merger

On 9 October 2024, Guotai Junan Securities and Haitong Securities entered into the Merger Agreement with respect to the Proposed Merger which sets forth detailed terms and conditions for implementing the Proposed Merger.

The Proposed Merger will take the form of a merger by absorption by Guotai Junan Securities issuing, on the basis of a single Exchange Ratio, Guotai Junan A Shares and Guotai Junan H Shares to all the holders of Haitong A Shares and Haitong H Shares respectively, in exchange for all of the issued shares of Haitong Securities. Upon Closing, the Post-Merger Company will assume all assets, liabilities, businesses, employees, contracts, qualifications and all other rights and obligations of Haitong Securities.

The Exchange Ratio, being 0.62:1 (rounded to two decimal places), has been agreed after arm's length negotiations between Guotai Junan Securities and Haitong Securities by taking into account the Market Reference Prices of the A shares of the two companies, and after deducting the Guotai Junan 2024 Interim Dividend and Haitong 2024 Interim Dividend respectively.

For the interests of the Disinterested Haitong H Shareholders, this means that 1 Haitong H Share shall be exchanged for 0.62 Guotai Junan H Shares to be issued by Guotai Junan Securities.

Proposed Placement

To raise ancillary fundings to increase the capital, support the development for business lines of the Post-Merger Company, and replenish the working capital, Guotai Junan Securities proposed to approve the issuance of such number of Placement A Shares at an issue price of RMB15.97 per Placement A Share to the Subscriber for a total consideration of up to RMB10,000,000,000. In this regard, Guotai Junan Securities and the Subscriber entered into the Placement Subscription Agreement on 9 October 2024. The net proceeds from the Proposed Placement are intended to be used for international business, trading and investment business, digitalisation and replenishing working capital.

The Proposed Placement will be undertaken concurrently with the Share Exchange.

Special Deal

The BOCI Asia Haitong Put Option Arrangement is not extended to all Haitong Shareholders, and is therefore considered as the Special Deal. As the Special Deal is not capable of being extended to all Haitong Shareholders, it is subject to the consent of the Executive and the approval of the Independent Haitong Shareholders.

The Haitong IBC

The Haitong IBC, comprising all of the non-executive directors and independent non-executive directors of Haitong Securities, being Mr. TU Xuanxuan, Mr. SHI Lei, Ms. XIAO Hehua, Mr. XU Jianguo, Mr. ZHOU Yu, Mr. FAN Ren Da Anthony, Mr. MAO Fugen and Mr. MAO Huigang, has been established to make recommendations to the Independent Haitong Shareholders and the Disinterested Haitong H Shareholders as to (i) whether the Proposed Merger (including the Special Deal) and the Proposed Placement are fair and reasonable; and (ii) whether to vote in favour of the Proposed Merger (including the Special Deal) and the Proposed Placement at the Haitong EGM and the Haitong H Shareholders' Class Meeting.

THE INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser with respect to the Proposed Merger and the Proposed Placement, our role is to advise the Haitong IBC as to (i) whether the Proposed Merger (including the Special Deal) and the Proposed Placement are fair and reasonable; and (ii) whether the Independent Haitong Shareholders and the Disinterested Haitong H Shareholders should vote in favour of the Proposed Merger (including the Special Deal) and the Proposed Placement at the Haitong EGM and the Haitong H Shareholders' Class Meeting.

We (i) are not associated or connected, financial or otherwise, with Haitong Securities or Guotai Junan Securities, their respective controlling shareholders or any parties acting, or presumed to be acting, in concert with any of them; and (ii) save that we were previously engaged as the independent financial adviser in relation to the privatisation of Haitong International Securities Group Limited (stock code: 665 (delisted)) ("**Haitong International Securities**"), being a subsidiary of Haitong Securities and the details of which are set out in Haitong International Securities' scheme document dated 22 November 2023, we have not acted as the financial adviser or independent financial adviser in relation to any transaction of Haitong Securities or Guotai Junan Securities, their respective controlling shareholders or any parties acting in concert with any of them in the last two years prior to the date of the Joint Circular.

Pursuant to Rule 13.84 of the Listing Rules and Rule 2 of the Takeovers Code, and given that (i) remuneration for our engagement to opine on the Proposed Merger (including the Special Deal) and the Proposed Placement is at market level and not conditional upon the outcome of the Proposed Merger (including the Special Deal) and the Proposed Placement; (ii) no arrangement exists whereby we shall receive any fees or benefits from Haitong Securities (other than our said remuneration) or Guotai Junan Securities, their respective controlling shareholders or any parties acting in concert with any of them; and (iii) our engagement is on normal commercial terms and approved by the Haitong IBC, we are independent of Haitong Securities or Guotai Junan Securities, their respective controlling shareholders or any parties acting in concert with any of them and can act as the independent financial adviser to the Haitong IBC in respect of the Proposed Merger (including the Special Deal) and the Proposed Placement.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the Joint Announcement; (ii) the audited consolidated financial statements of the Haitong Group for the nine months ended 30 September 2024 as set out in Appendix II to the Joint Circular; (iii) the interim report of Haitong Securities for the six months ended 30 June 2024 (the “**Haitong 2024 Interim Report**”); (iv) the annual report of Haitong Securities for the year ended 31 December 2023 (the “**Haitong 2023 Annual Report**”); (v) the quarterly report of Guotai Junan for the nine months ended 30 September 2024 (the “**Guotai Junan 2024 Third Quarterly Report**”); (vi) the interim report of Guotai Junan Securities for the six months ended 30 June 2024 (the “**Guotai Junan 2024 Interim Report**”); (vii) the annual report of Guotai Junan for the year ended 31 December 2023 (the “**Guotai Junan 2023 Annual Report**”); and (viii) other information as set out in the Joint Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Joint Circular and/or provided to us by Haitong Securities, the Directors and the management of Haitong Securities (collectively the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Joint Circular and/or provided to us were true, accurate and complete in all material aspects at the time they were made and continued to be so as at the Latest Practicable Date. Haitong Securities will notify the Disinterested Haitong H Shareholders of any material changes to information contained or referred to in the Joint Circular as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Disinterested Haitong H Shareholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion, if any, after the Latest Practicable Date, and before the Haitong EGM and the Haitong H Shareholders’ Class Meeting.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material fact the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to Haitong Securities contained or referred to in the Joint Circular, and information relating to Haitong Securities provided to us by Haitong Securities and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Haitong Group.

We have not considered the taxation implications on the Disinterested Haitong H Shareholders arising from approval or disapproval of the Proposed Merger, if any, and therefore we will not accept responsibility for any tax effect or liability that may potentially be incurred by the Disinterested Haitong H Shareholders as a result of the Proposed Merger. In particular, the Disinterested Haitong H Shareholders who are subject to Hong Kong or overseas taxation on dealings in securities are urged to seek their own professional advice on tax matters.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice for the Proposed Merger and the Proposed Placement, we have taken into consideration, among other things, the following:

1. Business and financial information of Haitong Securities

1.1. Background of Haitong Securities

Haitong Securities is a listed company with its A shares listed on the SSE since 2007 and its H shares listed on the Hong Kong Stock Exchange since 2012. Haitong Securities' primary businesses are wealth management, investment banking, asset management, trading and institutional client services and financial leasing.

1.2. Historical financial performance of Haitong Securities

Set out below is a table summarising certain key financial information of the Haitong Group for its financial years ended 31 December (“FY”) 2022 and 2023 (“FY2022” and “FY2023”) and the six months ended 30 June 2023 and 2024 respectively (“1H2023” and “1H2024”), as extracted from the Haitong 2023 Annual Report and the Haitong 2024 Interim Report.

Consolidated statement of profit or loss

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Total revenue, gains and other income	41,980	41,765	26,027	17,593
Total expenses	(34,768)	(40,743)	(21,255)	(15,616)
Share of results of associates and joint ventures	787	544	480	(71)
Profit for the year/period attributable to equity holders of Haitong Securities	6,545	1,008	3,830	953

Breakdown by business segment and geographical segment

RMB million	FY2022			FY2023			1H2023			1H2024		
	<i>(audited)</i>			<i>(audited)</i>			<i>(unaudited)</i>			<i>(unaudited)</i>		
	<i>(restated)</i>											
	Revenue	Segment results	Profit margin (%)	Revenue	Segment results	Profit margin (%)	Revenue	Segment results	Profit margin (%)	Revenue	Segment results	Profit margin (%)
Wealth management	15,253	6,411	42.0	14,368	2,336	16.3	7,082	1,737	24.5	6,249	1,317	21.1
Investment banking	4,651	2,182	46.9	4,345	1,554	35.8	2,514	908	36.1	1,249	62	5.0
Asset management	2,858	1,197	41.9	2,476	931	37.6	1,182	328	27.7	1,103	420	38.1
Trading and institutional client services	4,465	(4,223)	(94.6)	5,316	(5,403)	(101.7)	6,040	912	15.1	4,193	(674)	(16.1)
Financial leasing	8,974	1,751	19.5	9,097	1,912	21.0	4,620	927	20.1	4,040	955	23.6
Others	5,779	(106)	(1.8)	6,163	(307)	(5.0)	4,589	(40)	(0.9)	759	(102)	(13.5)
Total revenue, gains and other income	41,980			41,765			26,027			17,593		

Wealth management business revenue had overall decreased in FY2023 and 1H2024 due to lower securities broking fee income and decrease of financing business income respectively. Meanwhile, investment banking business revenue was particularly affected in 1H2024, due to a decrease in fund raised from IPOs (initial public offerings), leading to a decline in equity underwriting income.

Revenue of asset management business reduced in line with lower management fee rates in FY2023 and 1H2024. But Haitong Group had mitigated such impact through Asset Under Management (“AUM”) increases by promoting the transformation of businesses and function and continuously improving the level of product innovation and investment and research ability in 1H2024.

Trading and institutional client services segment revenue fluctuated over FY2023 and 1H2024 due to fluctuation of market. This business segment recorded relatively large losses mainly in the overseas business due to fair value changes of the investment securities held as well as increase in finance costs under the high interest rate environment.

Financial leasing business remained stable during the periods as Haitong Group managed to seize opportunities during market recovery by focusing on serving national strategy and serving the real economy which pertains to the production, purchase and flow of goods and services within the economy; in contrast with the financial economy which focuses on transactions of money and other financial assets.

Overall, total revenue, gains and other income remained stable in FY2023 compared with FY2022 but experienced a more pronounced decline in 1H2024 compared with 1H2023 due to the combination of reasons above.

<i>RMB million</i>	FY2022		FY2023		1H2023		1H2024	
	Revenue	Profit margin (%)	Revenue	Profit margin (%)	Revenue	Profit margin (%)	Revenue	Profit margin (%)
Domestic business	32,957	33.4	32,255	21.2	18,666	24.7	12,858	26.7
Overseas business	9,023	(41.9)	9,510	(61.0)	7,361	2.3	4,735	(30.6)
Total revenue, gains and other income	41,980	17.2	41,765	2.5	26,027	18.3	17,593	11.2

During FY2023 and 1H2024, Haitong Group's profitable domestic business was negatively impacted by losses of its overseas business, in particular in Hong Kong due to fair value changes of the investment securities held as well as increase in finance costs under the high interest rate environment.

(I) Wealth management business

During FY2023, Haitong Group continued its focus on the main theme of serving national strategies and the real economy and had acted on the general principle of pursuing progress while ensuring stability. On the backdrop of a volatile market with low trading liquidity, securities companies saw decrease in brokerage commission rates, decline in the value of traditional channel business (which is to provide clients with broking, dealing and handling services for securities) and narrowing profitability. Meanwhile, the scale of margin financing and securities lending market increased in line with government's counter-cyclical adjustment policies.

Under the new "National Nine Guidelines" for capital markets, the "1+N" policy regime of the capital market refers to a basket of policies issued by Chinese government, to effectively implement the new National Nine Guidelines along with ancillary market rules and measures. Haitong Group's wealth management business adopted the "investor oriented" business philosophy, accelerating its transformation towards a customer-centric buyer-side services model.

Retail business and sales of financial products

The table below sets out Haitong Group's trading volume of stocks and funds:

<i>RMB billion</i>	FY2022	FY2023	1H2023	1H2024
Trading volume of stocks	13,680	12,505	6,651	5,836
Trading volume of funds	3,383	3,502	1,597	1,562
Total	17,063	16,007	8,248	7,398

With the implementation of the institutional transformation of its wealth management business and continuous efforts on its sales of financial products business, Haitong Group had largely been able to sustain its trading volume of stocks and funds during FY2023 and 1H2024 as shown above despite the severe market challenges.

Separately during 1H2024, the Haitong Group had built a customer-centric full-spectrum product matrix which focused on fixed-income products. This had resulted in the average daily balance of financial products distributed by Haitong Group recording year-on-year increase of approximately 3.6%. In particular, the balance of publicly offered bond investment products increased by approximately 108.9%, and the balance of privately offered fixed income products increased by approximately 81.2%.

Financing business and futures business

The table below sets out Haitong Group's balances of various categories of financing business:

<i>RMB billion</i>	As at 31 December 2022	As at 31 December 2023	As at 30 June 2024
Balance of margin financing and securities lending business	61.2	65.6	60.9
Balance of stock pledge business	27.4	26.2	22.7
Balance of stock repo transaction	0.2	0.0	0.0
Total	88.8	91.8	83.6

The balances of Haitong Group's margin financing and securities lending business had maintained relatively stable as at 31 December 2022, 31 December 2023 and as at 30 June 2024 despite market headwinds. Interest income from advances to customers on margin financing however decreased by about 10.0% in FY2023 compared to FY2022 while it decreased by about 13.9% during 1H2024 compared with 1H2023 as shown below.

<i>RMB million</i>	FY2022 (audited) (restated)	FY2023 (audited)	1H2023 (unaudited)	1H2024 (unaudited)
Interest income from advances to customers on margin financing	4,644	4,179	2,116	1,822

Haitong Group's futures business also developed steadily, with the scale of futures asset management business increasing approximately 118% in FY2023 and a further approximately 27% in 1H2024. There was also year-on-year increase of approximately 350% for new sales volume of funds in FY2023 and such volume continued to grow in 1H2024.

(II) Investment banking business

Stock issuance in A-share market reduced in FY2023 along with overall slowdown of global economies. The number of IPOs (initial public offerings) and other offerings declined in 1H2024 amidst more robust market regulations. Bond financing meanwhile maintained a growing trend during FY2023 and 1H2024.

Equity financing and bond financing

In FY2023, Haitong Group adhered to its “specialisation” route, focusing on benchmark projects and facilitating technology enterprises in self-reliance. Meanwhile, the underwritten amount for Haitong Group’s bond financing increased on the back of its innovation-driven development. In particular during 1H2024, the Haitong Group conducted an issuance of RMB3.5 billion Yulan bonds (being Chinese corporate bonds denominated in foreign currencies, issued through the Shanghai Clearing House), which is the first of its kind and the largest bond issuance transaction in China.

(III) Asset management business

Fund management company and HT Asset Management

As at 30 June 2024, the total AUM of Haitong Group’s asset management business totalled over RMB2.0 trillion. Haitong Group’s AUM for its fund management business under Fullgoal Fund Management Co., Ltd and HFT Investment Management Co., Ltd grew during FY2023 and 1H2024.

Total AUM of Fullgoal Fund Management Co., Ltd reached nearly RMB1.5 trillion where AUM of mutual funds exceeded RMB990 billion, and its fixed income products increased significantly.

As at 30 June 2024, the AUM of HFT Investment Management Co., Ltd amounted to RMB422.1 billion, continuing an upward trend. The amount of non-money funds products was RMB114.5 billion, representing an increase of 11.7% as compared to the beginning of 2024. HFT Investment’s bond ETFs surpassed RMB40 billion, positioning it as a market leader in the domestic market with the most extensive range of bond ETFs, highest AUM and richest experience in investment management.

Private equity funds and overseas asset management

In FY2023, Haitong Group invested in 52 new private equity projects and established 10 new funds, increasing the number of funds under management to 63 funds and AUM by 11%, and it has also signed up three master funds. Haitong Group invested in a further 16 projects in 1H2024 and accelerated its master fund business where it completed investment in 17 sub-funds under the master funds.

Against market headwinds, Haitong Group was able to grow its AUM for external customers for its overseas asset management business in FY2023 and 1H2024.

(IV) Trading and institutional client services

The A-share and H-share markets were generally lackluster in FY2023 and 1H2024. Meanwhile, bond market performance was on a stable upward trend during these periods.

During FY2023 and 1H2024, Haitong Group had adhered to the strategic requirements on “professionalism and dedication”, “two focuses” of focusing on key industries and the top enterprises within these industries, and practicing “three servings” of serving the real economy, national strategies on scientific and technological innovation and “One Haitong” philosophy; while adopting a prudent investment style.

Trading and institutional client services business recorded relatively large losses in FY2023 and 1H2024 mainly in the overseas business due to fair value changes of the investment securities held as well as increase in finance costs under the high interest rate environment.

Trading business

For fixed-income, Haitong Group adjusted the duration and structure of bonds based on changes in the bond market, and actively served the national strategy while achieving better investment returns, with investments in social responsibility amounting to RMB16.3 billion. It was honored with a number of awards during FY2023 and 1H2024.

For the equity investment, with the objective of “mitigating risk and pursuit of absolute return” and the principle of “focusing on the long-term and seeking stability”, Haitong Group had struck a balance between immediate profits and net asset growth through specialised and refined research. This was achieved during FY2023 and 1H2024 by building its portfolio around high-dividend, low-valuation stocks with high degree of certainty, while selectively incorporating growth stocks that may benefit from market’s structural opportunities.

For the derivative and trading business, Haitong Group offered a wealth of on-balance sheet non-standardized derivative products through over-the-counter derivative instruments to meet clients’ needs. As at 30 June 2024, Haitong Group’s market-making products covered all kinds of products including equity ETFs, cross-border ETFs, bond ETFs, monetary funds and REITs.

Institutional client business

Throughout FY2023 and 1H2024, the institutional client business capitalised on the synergy of the head office and branches of Haitong Group and maintained a high client coverage rate.

(V) *Financial leasing business*

During FY2023 and 1H2024, Haitong Group continued its pursuit of its core mission of supporting national strategies. In FY2023, against the backdrop of optimisation and adjustment of top-level design of national financial regulation, Haitong UT Leasing was able to seize opportunities during market recovery, achieving approximately 5% year-on-year profit growth. In 1H2024, this business segment optimised its debt structure through various measures, and continued to reduce its debt cost, thereby achieving marginal increase in profits compared with 1H2023.

Total revenue, gains and other income

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Commission and fee income	14,668	12,497	6,462	4,942
Interest income	17,515	18,320	9,320	8,188
Finance lease interest income	2,303	1,722	782	765
Investment income and gains (net)	(1,034)	481	3,287	1,791
Other income and gains	8,528	8,745	6,176	1,907
Total revenue, gains and other income	41,980	41,765	26,027	17,593

In FY2023, Haitong Group's total revenue, gains and other income was stable compared with FY2022 despite an approximate 14.8% decrease in commission and fee income as this was mainly offset by higher interest income as well as investment income and gains (net). Total revenue, other income and gains declined in 1H2024 compared with the previous corresponding period due mainly to the decrease in sales revenue from a subsidiary.

During FY2023 and 1H2024, there was across the board lower commission and fee income, especially from securities and futures brokerage business as well as underwriting and sponsor fee.

Interest income had remained comparatively stable during FY2023 and 1H2024, underpinned by those from sale and leaseback arrangements. Investment income and gains (net) improved from a loss position in FY2022 due to gains from financial instruments but such gain narrowed during 1H2024.

Composition of expenses

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Depreciation and amortisation	1,581	1,719	839	886
Staff costs	5,785	6,341	3,651	3,038
Commission and fee expenses	3,084	3,144	1,521	1,438
Interest expenses	13,608	15,953	7,918	7,183
Impairment losses under expected credit loss model	1,666	3,189	1,204	870
Impairment losses of other assets	65	308	10	16
Other expenses	8,979	10,089	6,112	2,185
Total	34,768	40,743	21,255	15,616

Haitong Group's expenses increased during FY2023 compared with FY2022 mainly due to the increase of interest expenses and expected credit loss expenses. In particular, impairment losses under the expected credit loss model for receivables arising from sale and leaseback arrangements and advances to customers on margin financing increased substantially during FY2023 compared to FY2022.

Expenses decreased in 1H2024 compared with 1H2023 due to the decrease of the cost of sales of a subsidiary whose business includes trading in commodity's spot-futures arbitrage. Other expenses comprised mainly administrative expenses and cost of commodity trading, both expenses of which increased in FY2023 compared with FY2022. Other expenses decreased substantially in 1H2024 compared with 1H2023 as cost of commodity trading reduced significantly since the relevant subsidiary had reduced its trading scale given the prevailing market condition.

Net profit attributable to equity holders of Haitong Securities

In line with a lower revenue on the back of weak macroeconomic and market environment, net profit attributable to equity holders of Haitong Securities decreased to approximately RMB1,008 million in FY2023 and recorded approximately RMB953 million in 1H2024.

Consolidated statement of financial position

<i>RMB million</i>	As at		
	31 December 2022 <i>(audited)</i> <i>(restated)</i>	31 December 2023 <i>(audited)</i>	30 June 2024 <i>(unaudited)</i>
<u>Non-current assets</u>			
Property and equipment	17,017	16,643	16,350
Finance lease receivables	7,103	11,248	10,158
Receivables arising from sale and leaseback arrangements	47,848	40,593	36,084
Debt instruments at fair value through other comprehensive income	45,975	52,676	53,933
Financial assets at fair value through profit or loss	25,043	24,767	26,208
Others	44,528	46,191	43,704
Total non-current assets	187,514	192,118	186,437
<u>Current assets</u>			
Advances to customers on margin financing	67,844	68,418	63,944
Financial assets at fair value through profit or loss	184,555	196,506	185,190
Bank balance and cash	153,393	136,387	139,805
Others	160,303	161,158	146,039
Total current assets	566,095	562,469	534,978
<u>Current liabilities</u>			
Borrowings, short-term financing bills payables and bonds payables	(133,177)	(146,097)	(147,056)
Accounts payable to brokerage clients	(115,513)	(106,539)	(106,526)
Financial assets sold under repurchase agreements	(101,694)	(111,618)	(98,966)
Others	(39,014)	(55,902)	(55,239)
Total current liabilities	(389,398)	(420,156)	(407,787)
<u>Non-current liabilities</u>			
Long-term borrowings	(33,951)	(24,411)	(18,785)
Bonds payable	(121,678)	(115,619)	(109,555)
Others	(30,960)	(19,601)	(14,096)
Total non-current liabilities	(186,589)	(159,631)	(142,436)
Total equity	177,622	174,800	171,192

Haitong Group's total equity had remained largely stable between 31 December 2022 and 30 June 2024 at between approximately RMB171.2 billion and RMB177.6 billion level.

In terms of non-current assets, value of debt instruments at fair value through other comprehensive income increased from approximately RMB46.0 billion as at 31 December 2022 to approximately RMB54.0 billion as at 30 June 2024. This was offset by lower amounts of receivables arising from sale and leaseback arrangements which reduced from approximately RMB48.0 billion to approximately RMB36.1 billion over the same period. Impairment allowances of approximately RMB1.2 billion, RMB1.9 billion and RMB2.1 billion were made on receivables arising from sale and leaseback arrangements as at 31 December 2022, 31 December 2023 and 30 June 2024 respectively.

Current assets comprised mainly financial assets at fair value through profit and loss as well as advances to customers on margin financing. We note that Haitong Group had recorded substantial credit impairment loss allowance of approximately RMB2.2 billion, RMB3.5 billion and RMB3.6 billion on advances to customers on margin financing as at 31 December 2022, 31 December 2023 and 30 June 2024 respectively.

Bank balance and cash under current assets decreased between 31 December 2022 and 30 June 2024. This generally corresponded with lower non-current liabilities where aggregate long term borrowings and bonds payable decreased from approximately RMB155.6 billion to approximately RMB128.3 billion over the period.

Audited consolidated financial statements of the Haitong Group for the nine months ended 30 September 2024

The audited consolidated financial statements of the Haitong Group for the nine months ended 30 September 2024, which have been prepared in accordance with IFRS, are set out in the section headed "C. Audited Consolidated Financial Statements of the Haitong Group for the nine months ended 30 September 2024" in Appendix II to the Joint Circular.

Overall, from a profit or loss perspective, Haitong Group's total revenue, gains and other income decreased by approximately 30.5% from approximately RMB36,577 million during the nine months ended 30 September 2023 ("**9M2023**") to approximately RMB25,419 million during the nine months ended 30 September 2024 ("**9M2024**"), mainly due to the decrease of sales revenue from a subsidiary. Due to the lower revenue in 9M2024, whilst total expenses of Haitong Group decreased by approximately 19.9% as compared to the same period last year, Haitong Group recorded net loss attributable to equity holders of Haitong Securities of approximately RMB659 million, as compared to a net profit attributable to equity holders of Haitong Securities of approximately RMB4,362 million in 9M2023. From a financial position perspective, Haitong Group's total equity amounted to approximately RMB169.5 billion as at 30 September 2024, remaining largely stable as compared to approximately RMB171.2 billion as at 30 June 2024.

For further discussions relating to Haitong Group’s financial performance in 9M2024, please refer to “Management discussions and analysis on Haitong Group’s performance” as set out in Appendix IV to the Joint Circular.

1.3. Historical dividends of Haitong H Shares

Dividends per Haitong H Share during the past ten years ended 31 December 2023 are set out below:

Year ended	Dividend per Haitong H Share (HK\$) (approximate)
31 December 2023	0.110
31 December 2022	0.230
31 December 2021	0.350
31 December 2020	0.625
31 December 2019	Nil
31 December 2018	0.170
31 December 2017	0.281
31 December 2016	0.251
31 December 2015	0.533
31 December 2014	0.317
Total	2.869

The aggregate dividend per Haitong H Share for the ten years ended 31 December 2023 was approximately HK\$2.869. We observed that Haitong Securities had consistently distributed dividend to Haitong H Shareholders save for in the year of 2019. Meanwhile, the ratio of dividend payout had varied which appeared to correspond to, among others, Haitong Group’s overall profitability and financial position in accordance with its dividend policy.

2. Business and financial information of Guotai Junan Securities

2.1. Background of Guotai Junan Securities

Guotai Junan Securities is a listed company with its shares listed separately on the SSE (as A shares) and the Hong Kong Stock Exchange (as H shares) since 2015 and 2017 respectively. Guotai Junan Securities engages primarily in wealth management, investment banking, institutional and trading, investment management and international business.

2.2. Historical financial performance of Guotai Junan Securities

Set out below is a table summarising certain key financial information of the Guotai Junan Group for FY2022, FY2023, 1H2023 and 1H2024 respectively, as extracted from the Guotai Junan 2023 Annual Report and the Guotai Junan 2024 Interim Report.

Consolidated statement of profit or loss

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Total revenue and other income	49,087	52,304	26,171	25,779
Total expenses	(35,700)	(40,535)	(18,822)	(19,390)
Operating profit	13,387	11,768	7,349	6,389
Profit for the year/period attributable to equity holders of Guotai Junan Securities	11,509	9,374	5,742	5,016

Driven by customer demand, the Guotai Junan Group has established a retail, institutional and corporate customer service system, forming the business segments covering the businesses of wealth management, investment banking, institutional and trading, investment management and international business. The Guotai Junan Group generates fee and commission income and interest income mainly through the provision of financial products or services to clients and receives investment gains through securities or equity investments.

Breakdown by business segment

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Wealth management	18,373	17,442	9,136	8,766
Investment banking	4,216	3,669	1,514	1,106
Institutional and trading	21,535	20,920	10,432	9,746
Investment management	1,718	4,475	2,449	2,116
International business	2,437	4,691	2,076	3,403
Others	808	1,107	564	642
Total	49,087	52,304	26,171	25,779

In FY2023, the Guotai Junan Group realised total revenue and other income of approximately RMB52.3 billion, representing an increase of approximately 6.6% as compared to FY2022. The approximate 13.0% decline in revenue of investment banking business and marginal declines of wealth management and institutional and trading businesses were offset by growth in revenue from investment management business of approximately 160.4% as well as approximately 92.5% growth from international business.

The Guotai Junan Group's total revenue and other income decreased marginally by approximately 1.5% during 1H2024 compared with 1H2023, which was primarily caused by lower revenue of investment banking and investment management revenue of approximately 27.0% and 13.6% respectively. Such a decline was mitigated by strong revenue growth of international business. Meanwhile, the two largest revenue contributors (being the businesses of wealth management and institutional and trading) were able to contain their revenue decline within approximately 4% and 7% during 1H2024 respectively.

(1) Wealth management business

The Guotai Junan Group's wealth management business mainly provides securities and futures brokerage, financial products, investment advisory, margin financing and securities lending, stock pledging, agreed securities repurchase and other services to clients.

Retail brokerage and wealth management

The table below sets out the market share of Guotai Junan Group's securities brokerage business in China's domestic market:

	FY2022	FY2023	1H2023	1H2024
Stocks	4.40%	4.63%	4.57%	4.92%
Securities investment funds	5.81%	5.80%	6.45%	5.54%
Bonds	6.05%	5.75%	6.00%	5.41%

Source: Guotai Junan 2023 Annual Report, Guotai Junan 2024 Interim Report and statistics from members of SSE and Shenzhen Stock Exchange.

During FY2023 and 1H2024, the Guotai Junan Group accelerated the establishment of its “driven by investment advisory and empowered by technology” wealth management model and had adhered to the direction of high-quality customer expansion. Consequently, it had largely maintained its market share in each of the stocks, securities investment funds and bonds brokerage business.

Futures brokerage

The table below sets out the transaction amount of Guotai Junan Futures Co., Ltd.:

<i>RMB trillion</i>	FY2022	FY2023	1H2023	1H2024
Transaction amount	64.15	84.55	37.84	54.59

Underpinned by Guotai Junan Group's fully incorporated integrated platform and improved cross-market service capabilities, its futures transaction amount increased by approximately 31.8% in FY2023. With its ability to adapt to policy adjustments, such trends continued in 1H2024 where futures transaction amount increased by approximately 44.3% when compared to the previous corresponding period. At the same time, Guotai Junan Group continued to gain market share for transactions conducted on Shanghai Futures Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange and China Financial Futures Exchange.

Margin financing, securities lending and stock pledging business

The table below sets out Guotai Junan Group's balance of margin loans and balance of the stock pledging business.

<i>RMB million</i>	As at 31 December 2022	As at 31 December 2023	As at 30 June 2024
Balance of margin loans	80,442	83,346	76,296
Outstanding balance of stock pledging business	26,246	26,531	23,038

Guotai Junan Group continued to optimise its risk control system and business management model during FY2023 and 1H2024 by adhering to counter-cyclical adjustment mechanism. Similarly, the Guotai Junan Group adhered to the prudent and steady development strategy of "diversification, low leverage and high liquidity" for its stock pledging business.

The above efforts were aimed at sustaining Guotai Junan Group's scale of its margin financing, securities lending and stock pledging business in the face of a weak overall market. Set out below are details of interest income from margin financing and securities lending, and stock-pledged financing and securities repurchase of Guotai Junan Group.

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Interest income from margin financing and securities lending	6,387	6,083	3,083	2,637
Interest income from stock-pledged financing and securities repurchase	1,860	1,389	710	590

As shown in the table above, interest income from margin financing and securities lending declined by approximately 4.8% in FY2023 as compared to FY2022 and approximately 14.5% in 1H2024 as compared to 1H2023 respectively. Interest income from stock-pledged financing and securities repurchase declined by approximately 25.3% in FY2023 as compared to FY2022 and approximately 16.9% in 1H2024 as compared to 1H2023 respectively.

(II) Investment banking business

Guotai Junan Group's investment banking business mainly provides listing sponsorship, equity underwriting, debt underwriting, structured debt financing, M&A (merger and acquisition) financial advisory and diversified corporate solutions to corporate and government clients.

In FY2023 and 1H2024, Guotai Junan Group was able to consolidate its leading market position in the investment banking business.

Its lead underwriting amount for securities increased by approximately 18.8% and 26.4% in FY2023 and 1H2024 when compared to the previous corresponding periods. Strong growth was observed in the underwriting of corporate bonds, in particular science and technology innovation bonds as well as financial bonds. Its market share also increased during these periods. The above increases more than offset the lower underwriting amount for equity interest and IPO projects as Guotai Junan Group responded prudently to changes in the external environment.

(III) Institution and trading business

Guotai Junan Group's institutional and trading business mainly consists of research, institutional brokerage, trading and investment and equity investment. Among which, institutional brokerage mainly provides prime brokers, seat leasing, custody and outsourcing, QFII and other services to institutional clients. The trading and investment business mainly includes investment transactions in stocks, fixed income, foreign exchange, large commodities and their derivative financial instruments, as well as providing integrated financial solutions for clients' investment, financing and risk management.

Trading and investment business

In FY2023, Guotai Junan Group's cumulative nominal principal amount of OTC derivatives increased by approximately 16.9% compared to the previous year, in line with the steady development and effect of its brand "Guotai Junan Risk Hedging". Such amount further increased by approximately 18.0% during 1H2024.

Guotai Junan Group's volume of spot bond transactions in the inter-bank bond market was approximately RMB7.08 trillion in FY2023 and was approximately RMB4.03 trillion in 1H2024.

Alternative investment business

Guotai Junan Group made 24 new investments and 7 divestments in FY2023, continuing the expansion of its equity investment business. Three new investments were made in 1H2024 with three projects divested.

As at 30 June 2024, the amount of investment projects was approximately RMB5.4 billion, a substantial increase compared to approximately RMB3.8 billion as at 31 December 2022.

(IV) Investment management business

Guotai Junan Group's investment management business provides asset management and fund management services to institutions and individuals.

As at 31 December 2023, the scale of asset under management of GTJA Asset Management and HuaAn Funds amounted to approximately RMB543.1 billion and RMB675.3 billion respectively, representing an increase of approximately 25.3% and 8.8% respectively as compared with 31 December 2022. As at 30 June 2024, asset under management of GTJA Asset Management and HuaAn Funds further increased to approximately RMB587.0 billion and RMB739.5 billion respectively.

(V) International business

In terms of international business, Guotai Junan Group built an international business platform around Guotai Junan Financial Holdings, and conducted brokerage, corporate finance, asset management, loans and financing services, financial products, market-making and investment business in Hong Kong, mainly through Guotai Junan International, with its business presence expanded into the United States, Europe and Southeast Asia.

During 1H2024, Guotai Junan International recorded an approximate 40.7% increase in revenue to approximately HK\$2.17 billion compared with 1H2023. Significant revenue increases were recorded for (i) interest income which increased by approximately 30.3% to HK\$1.1 billion; and (ii) net trading and investment income which almost doubled to approximately HK\$0.7 billion.

Total revenue and other income

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Fee and commission income	17,732	18,749	9,084	8,841
Interest income	15,587	15,636	7,856	7,417
Net investment gains	5,539	9,120	5,197	4,933
Other income and gains	8,751	8,799	4,034	4,588
Gain on business combination ^{Note}	1,478	–	–	–
Total revenue and other income	49,087	52,304	26,171	25,779

Note: Guotai Junan Securities acquired 8% interest in HuaAn Funds Management Co., Ltd. (“HuaAn Funds”) on 4 November 2022. After the acquisition, Guotai Junan Securities’ shareholding percentage in HuaAn Funds increased to 51%.

Total revenue and other income increased by approximately 6.6% in FY2023. Fee and commission income, the main contributor to revenue, increased by approximately 5.7% in FY2023 due mainly to the fact that HuaAn Funds was consolidated as a subsidiary for a whole year in FY2023 while the revenue of HuaAn Funds was only consolidated for two months in FY2022. Meanwhile, interest income remained stable in FY2023. Net investment gains increased significantly in FY2023 compared to FY2022 due to an increase in investment gains of financial instruments at fair value through profit or loss.

In 1H2024, Guotai Junan Group’s total revenue and other income declined marginally by approximately 1.5% compared to 1H2023. This was mainly due to (i) a 2.7% decrease in fee and commission income as revenue of brokerage and investment banking businesses dropped; (ii) a 5.6% decrease in interest income due to decline in margin financing and securities lending, as well as stock pledging business; and (iii) a 5.1% decrease in net investment gains due to decline in investment gains in financial instruments at fair value through profit or loss. The above was partially mitigated by a 13.7% increase in other income and gains due to higher sales revenue of bulk commodity trading of subsidiaries.

Composition of expenses

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Fee and commission expenses	3,532	3,681	1,708	2,464
Interest expenses	10,822	12,833	6,317	6,373
Staff costs	9,537	9,911	4,566	3,998
Depreciation and amortization expenses	1,305	1,514	740	799
Tax and surcharges	215	185	94	62
Other operating expenses and costs	10,729	12,116	5,287	5,431
Provision for impairment losses	24	32	1	26
Credit loss expense	(464)	263	109	237
Total	35,700	40,535	18,822	19,390

Guotai Junan Group's expenses increased by approximately 13.5% to approximately RMB40.5 billion during FY2023 mainly due to the increase in interest expenses, especially those relating to financial assets sold under repurchase agreements and borrowings. Other operating expenses and costs were approximately 12.9% higher, primarily due to full-year effect of consolidation of HuaAn Funds as a subsidiary. The higher expenses were also due to the fact that credit loss expense was accrued in FY2023 taking into account changes in market environment and project conditions while there were reversals of impairment losses in FY2022.

During 1H2024, Guotai Junan Group's expenses were higher by approximately 3.0% than 1H2023 despite lower total revenue and other income. Fee and commission expenses, in particular those relating to futures brokerage business, were higher. This was partly mitigated by lower staff costs. The main component of expenses, being interest expense and other operating expenses and costs, maintained largely stable. Taking into account the changes in market environment and project conditions, provisions for impairment losses and credit loss expense were made.

Net profit attributable to equity holders of Guotai Junan Securities

As the increase in expenses outpaced the improvement in revenue, Guotai Junan Group recorded an approximate 18.5% decrease in profit attributable to equity holders of Guotai Junan Securities in FY2023 compared with FY2022.

As revenue marginally decreased by approximately 1.5% in 1H2024 while expenses marginally increased by approximately 3.0%, Guotai Junan Group's profit attributable to equity holders in 1H2024 was approximately 12.6% lower at RMB5.0 billion. Set out below is a table showing profits before income tax breakdown by segment.

<i>RMB million</i>	FY2022 <i>(audited)</i> <i>(restated)</i>	FY2023 <i>(audited)</i>	1H2023 <i>(unaudited)</i>	1H2024 <i>(unaudited)</i>
Wealth management	5,534	3,696	2,470	1,946
Investment banking	1,655	1,682	516	378
Institutional and transaction	6,562	5,287	3,545	2,754
Investment management	1,286	1,791	1,009	960
International business	159	895	377	782
Others	(1,056)	(1,203)	(374)	(301)
Profits before income tax	14,140	12,148	7,543	6,519

Consolidated statement of financial position

<i>RMB million</i>	31 December 2022 <i>(audited)</i> <i>(restated)</i>	As at 31 December 2023 <i>(audited)</i>	30 June 2024 <i>(unaudited)</i>
<u>Non-current assets</u>			
Property and equipment	3,177	4,345	4,271
Debt instruments at fair value through other comprehensive income	56,360	76,450	51,808
Refundable deposits	58,923	56,788	65,897
Financial assets at fair value through profit or loss	21,127	22,550	13,686
Investments in associates and joint ventures	11,444	12,791	13,016
Others	16,316	17,548	20,366
Total non-current assets	167,347	190,472	169,044

<i>RMB million</i>	31 December 2022 (audited) (restated)	As at 31 December 2023 (audited)	30 June 2024 (unaudited)
<u>Current assets</u>			
Margin accounts receivable	87,116	89,754	82,947
Financial assets held under resale agreements	70,837	67,883	61,624
Financial assets at fair value through profit or loss	310,274	350,024	336,630
Debt instruments at fair value through other comprehensive income	4,830	17,696	22,187
Cash held on behalf of brokerage customers	158,868	141,939	153,851
Cash and bank balances	30,748	30,740	35,488
Others	30,688	36,895	36,288
Total current assets	693,361	734,931	729,015
<u>Current liabilities</u>			
Accounts payable to brokerage customers	(195,719)	(178,055)	(204,229)
Financial assets sold under repurchase agreements	(173,237)	(216,829)	(178,488)
Financial liabilities at fair value through profit or loss	(48,328)	(57,624)	(54,026)
Bonds payable	(33,724)	(32,443)	(34,540)
Others	(122,465)	(145,858)	(143,500)
Total current liabilities	(573,473)	(630,809)	(614,783)
<u>Non-current liabilities</u>			
Bonds payable	(94,159)	(101,582)	(96,975)
Financial liabilities at fair value through profit or loss	(26,721)	(17,201)	(9,063)
Others	(2,509)	(2,433)	(2,427)
Total non-current liabilities	(123,389)	(121,216)	(108,465)
Total equity	163,845	173,378	174,812

Total equity of Guotai Junan Group increased by approximately 6.7% between 31 December 2022 and 30 June 2024, in line with the profits recorded over this period. Current assets accounted for about 80% of total assets and Guotai Junan Group had net current assets position, thus maintaining a reasonable liquidity structure.

In addition, taking into account the impact of market fluctuations, Guotai Junan Group had made impairment allowances for assets with impairment indicators. According to the Guotai Junan 2023 Annual Report, credit risk impairment assessments were conducted for, among others, the following types of assets: (i) bond investments: Guotai Junan Group estimates the probability of default based on the mapping relationship of rating, sets loss given default based on industrial information and market data, and takes forward-looking factors into consideration; (ii) trade receivables: Guotai Junan Group calculates expected credit loss based on historical credit loss experience, adjusted for related information specific to the debtors and the economic environment, etc; and (iii) financial assets held under resale agreements and margin accounts receivable: multiple factors such as credit situation, repayment ability of the debtor, third-party credit enhancement measures, liquidity and disposal cycle of collaterals were considered.

Non-current assets

As at 31 December 2023, debt instruments at fair value through other comprehensive income was higher at approximately RMB76.5 billion compared with RMB56.4 billion as at 31 December 2022 due to the increase in scale of such investments according to the then market environment. It subsequently adjusted the scale of such investments by 30 June 2024, hence the value of such debt instruments declined to approximately RMB51.8 billion. For same reason, financial assets at fair value through profit or loss similarly decreased from approximately RMB22.6 billion as at 31 December 2023 to approximately RMB13.7 billion as at 30 June 2024.

Current assets

Responding to market environment, Guotai Junan Group's financial assets at fair value through profit and loss initially increased by approximately 12.8% to approximately RMB350.0 billion as at 31 December 2023 compared to as at 31 December 2022. It then scaled down such investments as market evolved and hence financial assets at fair value through profit and loss reduced to approximately RMB336.6 billion as at 30 June 2024.

As at 31 December 2023, cash held on behalf of brokerage customers recorded a decrease of approximately 10.7% when compared with 31 December 2022 primarily due to fluctuations in securities market conditions. Such cash amount then increased by approximately 8.4% as at 30 June 2024.

Current liabilities

As at 31 December 2022, 31 December 2023 and 30 June 2024, accounts payable to brokerage customers fluctuated from approximately RMB195.7 billion to RMB178.1 billion and then to RMB204.2 billion. Such movements corresponded with securities market conditions. Changes in other current liabilities items generally reflected Guotai Junan Group's business development needs and in combination with the optimisation of its liability structure.

Non-current liabilities

Guotai Junan Group regularly adjusted its liability structure in accordance with market conditions and in this regard, bond payable increased from approximately RMB94.2 billion as at 31 December 2022 to approximately RMB101.6 billion as at 31 December 2023 and reverted to approximately RMB97.0 billion as at 30 June 2024. Such adjustments similar applied to movements of financial liabilities at fair value through profit or loss.

Summary of the financial information of Guotai Junan Securities for the nine months ended 30 September 2024 under CASBE

We noted that Guotai Junan Securities had announced the unaudited financial statements of the Guotai Junan Securities for the nine months ended 30 September 2024, which have been prepared pursuant to CASBE, on 30 October 2024.

Overall, from a profit or loss perspective, Guotai Junan Securities' operating revenue increased by approximately 7.3% from approximately RMB27,029 million during 9M2023 to approximately RMB29,001 million during 9M2024, mainly due to a year-on-year increase in gains from changes in fair value. In 9M2024, Guotai Junan Securities recorded net profit attributable to equity holders of the parent company of approximately RMB9,523 million, as compared to a net profit attributable to equity holders of the parent company of approximately RMB8,627 million in 9M2023. From a financial position perspective, Guotai Junan Securities' total equity attributable to equity holders of the parent company was approximately RMB166.5 billion as at 30 September 2024, remaining largely stable as compared to RMB167.0 billion as at 31 December 2023.

For further discussions relating to Guotai Junan Securities' financial performance in 9M2024, please refer to Guotai Junan 2024 Third Quarterly Report dated 30 October 2024.

2.3. Historical dividends of Guotai Junan H Shares

Dividends per Guotai Junan H Share during the past ten years ended 31 December 2023 are set out below:

Year ended	Dividend	Dividend	Dividend
	per Guotai Junan H Share (HK\$) (approximate)	per 0.62 Guotai Junan H Share (HK\$) (approximate)	per Haitong H Share (HK\$) (approximate)
31 December 2023	0.440	0.273	0.110
31 December 2022	0.589	0.365	0.230
31 December 2021	0.798	0.495	0.350
31 December 2020	0.672	0.417	0.625
31 December 2019	0.427	0.265	Nil
31 December 2018	0.313	0.194	0.170
31 December 2017	0.494	0.306	0.281
31 December 2016	N/A ^(note 1)	N/A ^(note 1)	0.251
31 December 2015	N/A ^(note 1)	N/A ^(note 1)	0.533
31 December 2014	N/A ^(note 1)	N/A ^(note 1)	0.317
Total	3.733	2.314	1.767^(note 2)

Notes:

- (1) The H shares of Guotai Junan Securities were listed on the Hong Kong Stock Exchange since 2017.
- (2) For comparison purpose, this aggregate dividend per Haitong H Share represents summation from the year of 2017 to 2023.

The aggregate dividend per Guotai Junan H Share since its listing on the Hong Kong Stock Exchange in 2017, until the year of 2023, was approximately HK\$3.733. Dividend had consistently been paid out every year since the Guotai Junan H Share listing.

For illustrative purposes and assuming all things being equal; after accounting for the Exchange Ratio, the dividend from Guotai Junan H Shares which Haitong H Shareholders would have held was higher than the dividend Haitong H Shareholders would have received from their holding of Haitong H Shares during most of the years, except for the year ended 31 December 2020.

We note that the above illustration is historical and does not reflect financial situation of the Post-Merger Company. Both Haitong Securities and Guotai Junan Securities in the past had their respective cash dividend policy, the amount of distribution may vary subject to a number of factors, such as the actual amount of profits available for distribution for the particular year/period, needs of corporate operation and development and any future plans on usage of funds. Therefore, such historical dividends may not be reflective of future dividend payments of the Post-Merger Company.

3. Industry development and outlook

We have reviewed the First-half 2024 Analysis of the Securities Industry Report¹ (the “**1H SI Report**”) issued by China Lianhe Credit Rating Co., Ltd. (“**China Lianhe**”) on 19 September 2024, one of the largest credit rating agencies in the PRC. Based on publicly available information, China Lianhe was established in 2000 and is 71.8%-owned by Lianhe Credit Information Service Co., Ltd. and 24.2%-owned by the Government of Singapore Investment Corporation. It had over 300 analysts covering more than 3,000 issuers in 2023.

Recent industry developments

According to the 1H SI Report, in the first half of 2024, the PRC stock markets had experienced substantial fluctuations where both the Shanghai Composite Index and Shenzhen Composite Index reached their respective interim lows in February 2024 but rebounded to their highest levels in mid-May 2024; thereafter, they continued a downward trend. As at the end of June 2024, the Shanghai Composite Index had risen by about 0.2% while the Shenzhen Component Index had declined by approximately 5.9% compared to beginning of 2024. Trading amount of A-share markets during the first half of 2024 was approximately 9.3% lower than the first half of 2023, reflecting subdued stock market activities. With regards to the bond market, the outstanding balance of bonds increased by approximately 5.1% as at 30 June 2024 compared to the beginning of the year.

The 1H SI Report noted that the asset scale of securities companies have been increasing along with the continuous expansion of the PRC securities markets. While there remained a trend of overall revenue increase for securities companies, profitability has been under pressure. During the first half of 2024, the aggregate revenue of 147 securities companies recorded year-on-year decrease of approximately 9.4%, principally affected by the year-on-year decline in income from brokerage, credit and investment banking businesses, which was affected by low trading activities of stock markets, the decline in the daily average balance of margin trading and the slowdown in IPO activities.

The 1H SI Report also noted the relatively dominance of large size securities companies in the market, meanwhile the concentration of the securities industry remained relatively high during the first half of 2024 where the 10 largest accounted for about 69% and 56% of the industry’s revenue and net profit. It believes the large size securities companies could expand their leading advantageous position by leveraging on their scale of operations, brand names, platforms as well as favourable policies. Based on data from Wind Information Co., Ltd., a leading data provider in the PRC, the Guotai Junan Group ranked second and the Haitong Group ranked fifth in terms of asset scale among PRC’s securities companies.

¹ <https://www.lhratings.com/file/fb2bd5a2777.pdf>

Securities industry-related policies

Since beginning of 2024, the China Securities Regulatory Commission (“CSRC”) has continued to release policies on the implementation of the new “National Nine Guidelines” for capital market (資本市場新“國九條”) and the reform of the capital market has been deepened.

Some of the announced policies include:

- The 《關於加強證券公司和公募基金監管加快推進建設一流投資銀行和投資機構的意見(試行)》 policy announced in March 2024 which focuses on rectifying deviations in business philosophies of certain securities companies and fund managers, their ineffective operating capabilities and their low awareness on governance issues.
- In April 2024, the 《中國證監會關於資本市場服務科技企業高水平發展的十六項措施》 policy which implements various measures in support of primary and secondary market fund raising, mergers and acquisitions, bond issuance and private equity investments, was announced.
- The 《國務院關於加強監管防範風險推動資本市場高質量發展的若干意見》 policy announced by the State Council of PRC in April 2024 supports leading corporations within industries to reorganise through mergers and acquisitions so as to enhance their core competence and competitive positions.
- The 《中國證監會關於深化上市公司併購重組市場改革的意見》 policy was announced in September 2024 where mergers and acquisitions is recognised as an important tool to support the upgrade and transformation of industries and to realise high quality development of corporations.

Outlook

The 1H SI Report expects competition will continue at disparate levels, medium and small-scale securities companies continue to face development pressure and seek differentiated transformation paths.

The 1H SI Report stated that up to mid-September 2024, seven mergers and acquisitions within the securities industry had been announced. It believes under the encouragement of government policies, there has been an acceleration of such merger and acquisition activities of securities companies in the year.

Based on the aforesaid recent industry development and outlook, we are of the view that the Proposed Merger is consistent with market and regulatory developments. The rationale of the Proposed Merger as further elaborated below is justified by such development and it will be in the interests of Haitong Securities and the Disinterested Haitong H Shareholders.

4. Rationale of the Proposed Merger

We have considered the rationale of the Proposed Merger from Haitong Securities' perspective and from the Disinterested Haitong H Shareholders' perspective and our analysis is as follows:

4.1. From Haitong Securities' perspective

It is noted that the Central Financial Work Conference held in October 2023 stressed the importance to (i) create strong and powerful financial institutions, which in turn, will accelerate the pace for building China into a financial powerhouse; (ii) create world-class top-tier investment banks, which in effect, further support Shanghai as an international finance hub to develop and progress towards a new stage with elevated capabilities; and (iii) drive and recalibrate the competitive landscape of the industry, generating an ecosystem of diversified financial products and services that will satisfy the needs of investors, nourishing capital market functions that are well coordinated between investments and financing. This will help better establish strategic positioning across the "five key chapters" of technology finance, green finance, inclusive finance, pension finance and digital finance and capture unprecedented development opportunities.

The Proposed Merger represents a strategic move with an objective (i) to combine Haitong Securities and Guotai Junan Securities, which respectively are top players in the securities industry, to seize the opportunities of time and accelerate their combined development into a world-class investment bank; (ii) to reinforce their complementary advantages and enhance their core functionality to fully establish leading core competitiveness; and (iii) to optimise their combined layout by benchmarking against world-class standards with active participation in global competition and resource allocation.

4.2. From the Disinterested Haitong H Shareholders' perspective

Opportunities to share the benefits arising from a financially stronger and more comprehensive scale combined financial institution

The industry landscape and outlook are elaborated in the section headed "3. Industry development and outlook" above. In particular, it is noted that the market is increasingly being dominated by large size securities companies and large scale of operations provides a host of competitive advantages. By consolidating Haitong Securities and Guotai Junan Securities, being two large size top-tier and comprehensive financial institutions in China, it is expected that the Post-Merger Company would gain enhanced competitiveness. The Post-Merger Company's dominant position would be further solidified through the integration of the respective competitive strengths and experiences of Haitong Securities and Guotai Junan Securities.

In response to the authority's initiative to create strong and powerful financial institutions in China, the objective of the Proposed Merger as mentioned above and the competitive strengths and positive outlook of the Post-Merger Company, we are of the view that the Proposed Merger represents an opportunity for the Disinterested Haitong H Shareholders to participate in a stronger and more dominant combined leading financial institution in the industry.

By retaining equity exposure in the Post-Merger Company, Disinterested Haitong H Shareholders can benefit from the growth potential of a more diversified business portfolio with stronger asset backing than what they currently hold. Moreover, should the Proposed Merger become effective, Disinterested Haitong H Shareholders will hold shares of a financially stronger and more comprehensive scale Post-Merger Company with larger market capitalisation and they can expect to benefit from the resulting larger public float of the shares in the Post-Merger Company. This will likely result in further institutional investors following which may enhanced valuation of the Post-Merger Company and with enhanced trading liquidity which facilitates more efficient investment and realisation activities. Thus, the Proposed Merger in effect not only preserves existing investment value in Haitong Securities' businesses but also positions Disinterested Haitong H Shareholders to capitalise on future growth prospects across the Post-Merger Company's broader business segments, as well as possible enhanced valuation after the Proposed Merger.

Opportunity to exchange the Haitong H Shares at a premium to the prevailing market price

The exchange price for each Haitong H Share of HK\$4.79 represents a premium of approximately 31.96% over the closing price of each Haitong H Share of HK\$3.63 on the Hong Kong Stock Exchange as of the Last Trading Date, after deducting the Haitong 2024 Interim Dividend. The recent market trading price of the Proposed Merger Consideration (as defined below) is at a premium to that of the Haitong H Shares as analysed in the section headed "5.1. Market value of the Proposed Merger Consideration against the market value of Haitong H Shares" below. Per our analysis on historical price performance, it is noted that the closing price of Haitong H Shares had not reached the market value of the Proposed Merger Consideration during the Pre-Announcement Period (as defined below). From the perspective of market trading price of Haitong H Shares, we are of the view that the Proposed Merger offers Disinterested Haitong H Shareholders a reasonable opportunity to exchange their Haitong H Shares at a premium to the prevailing market price into Guotai Junan H Shares.

5. The Exchange Ratio

Pursuant to the terms of the Proposed Merger, Guotai Junan Securities proposes to issue Guotai Junan A Shares and Guotai Junan H Shares to Haitong Share-Exchange Shareholders at the same Exchange Ratio in exchange respectively, for the Haitong A Shares and Haitong H Shares held by such persons.

The Exchange Ratio, being 0.62:1 (rounded to two decimal places), has been agreed after arm's length negotiations between Guotai Junan Securities and Haitong Securities by taking into account the Market Reference Prices of the A shares of the two companies, and after deducting the Guotai Junan 2024 Interim Dividend and Haitong 2024 Interim Dividend respectively. This Exchange Ratio means that one Haitong A Share or Haitong H Share shall be exchanged for 0.62 Guotai Junan A Shares or Guotai Junan H Shares respectively to be issued by Guotai Junan Securities.

According to the Joint Circular, for illustrative purpose only, the exchange price for each Haitong H Share of HK\$4.79, being the Exchange Ratio multiplied by the exchange price of Guotai Junan H Shares, represents:

- (a) a premium of approximately 31.96% over the closing price of each Haitong H Share of HK\$3.63 on the Hong Kong Stock Exchange as of the Last Trading Date, after deducting the Haitong 2024 Interim Dividend;
- (b) a premium of approximately 38.44% over the volume-weighted average price of HK\$3.46 of each Haitong H Share on the Hong Kong Stock Exchange for the 20 trading days immediately prior to the date of the Joint Announcement, after deducting the Haitong 2024 Interim Dividend;
- (c) a premium of approximately 33.80% over HK\$3.58 of each Haitong H Share, being the Market Reference Price of each Haitong H Share (for the 60 trading days immediately prior to the date of the Joint Announcement) after deducting the Haitong 2024 Interim Dividend;
- (d) a discount of approximately 31.18% over the closing price of each Haitong H Share of HK\$6.96 on the Hong Kong Stock Exchange as of the Latest Practicable Date; and
- (e) an implied P/B Ratio of 0.35 and 0.35 over the audited net asset value attributable to owners of Haitong Securities per Haitong Share as of 31 December 2023 and the unaudited net asset value attributable to owners of Haitong Securities per Haitong Share as of 30 June 2024 respectively. In comparison, the closing price as of the Last Trading Date of Haitong H Share after deducting Haitong 2024 Interim Dividend implies P/B Ratio of 0.27 and 0.26 over the audited net asset value attributable to owners of Haitong Securities per Haitong Share as of 31 December 2023 and the unaudited net asset value attributable to owners of Haitong Securities per Haitong Share as of 30 June 2024 respectively. The audited net asset value attributable to owners of Haitong Securities per Haitong Shares as of 31 December 2023 is adjusted by deducting the Haitong 2023 Final Dividend and the Haitong 2024 Interim Dividend.

According to the Joint Circular, the exchange price for each Guotai Junan H Share of HK\$7.73, being the Market Reference Price after deducting the Guotai Junan 2024 Interim Dividend, represents:

- (a) a discount of approximately 2.28% over the closing price of each Guotai Junan H Share of HK\$7.91 on the Hong Kong Stock Exchange as of the Last Trading Date, after deducting the Guotai Junan 2024 Interim Dividend;
- (b) a premium of approximately 0.39% over the volume-weighted average price of HK\$7.70 of each Guotai Junan H Share on the Hong Kong Stock Exchange for the 20 trading days immediately prior to the date of the Joint Announcement, after deducting the Guotai Junan 2024 Interim Dividend;
- (c) equal to the Market Reference Price (after deducting the Guotai Junan 2024 Interim Dividend) of HK\$7.73 of each Guotai Junan H Share on the Hong Kong Stock Exchange for the 60 trading days immediately prior to the date of the Joint Announcement;
- (d) a discount of approximately 33.36% over the closing price of each Guotai Junan H Share of HK\$11.60 on the Hong Kong Stock Exchange as of the Latest Practicable Date; and
- (e) an implied P/B Ratio of 0.44 and 0.43 over the audited net asset value attributable to owners of Guotai Junan Securities per Guotai Junan Share as of 31 December 2023 and the unaudited net asset value attributable to owners of Guotai Junan Securities per Guotai Junan Share as of 30 June 2024 respectively. In comparison, the closing price as of the Last Trading Date of Guotai Junan H Share after deducting Guotai Junan 2024 Interim Dividend implies P/B Ratio of 0.45 and 0.44 over the audited net asset value attributable to owners of Guotai Junan Securities per Guotai Junan Share as of 31 December 2023 and the unaudited net asset value attributable to owners of Guotai Junan Securities per Guotai Junan Share as of 30 June 2024 respectively. The audited net asset value attributable to owners of Guotai Junan Securities per Guotai Junan Shares as of 31 December 2023 is adjusted by deducting the Guotai Junan 2023 Final Dividend and the Guotai Junan 2024 Interim Dividend.

For further details of the Market Reference Prices and basis of determination of the Exchange Ratio, please refer to the paragraph headed “(2) Exchange Ratio and Basis of Determination” under the section headed “2. Terms of the Proposed Merger” in the “Terms and information of the Proposed Merger and the Proposed Placement” contained in the Joint Circular.

For the interests of the Disinterested Haitong H Shareholders, this Exchange Ratio means that one Haitong H Share shall be exchanged for 0.62 Guotai Junan H Shares to be issued by Guotai Junan Securities (the “**Proposed Merger Consideration**”).

Given that both Haitong A Shares and Haitong H Shares will be exchanged at the same Exchange Ratio, and our role is to advise the Haitong IBC, which in turn, will provide recommendation to the Disinterested Haitong H Shareholders, our following analysis will focus on the Haitong H shares.

In assessing the fairness and reasonableness of the Exchange Ratio, we have conducted the following analysis:

- (a) **Market value comparison:** To provide a direct comparison based on current market conditions and provide an immediate perspective on the Proposed Merger's attractiveness, section 5.1 presents an analysis on the market value of the Proposed Merger Consideration against the market value of Haitong H Shares.
- (b) **Underlying asset value and profitability comparison:** In addition to market value comparison, section 5.2 presents an analysis comparing (i) the underlying asset value of the Proposed Merger Consideration (being the underlying asset value of 0.62 Guotai Junan H Shares) against the underlying asset value of each Haitong H Share; and (ii) the profitability attributable to the Proposed Merger Consideration (being the profitability of 0.62 Guotai Junan H Shares) against the profitability of each Haitong H Share. This approach accounts for the inherent value of the companies' assets and its ability to generate profits.
- (c) **Relative market price trend:** Since the Proposed Merger comprises the Share Exchange, we also consider the market price trends of Haitong H Shares and Guotai Junan H Shares to ascertain whether our analysis on the market value comparison remains valid up to the Latest Practicable Date.

5.1. Market value of the Proposed Merger Consideration against the market value of Haitong H Shares

Based on the closing price of HK\$8.07 for every Guotai Junan H Share as quoted on the Stock Exchange on the Last Trading Date, the value of the Proposed Merger Consideration is equivalent to approximately HK\$5.00 for every Haitong H Share.

Based on the closing price of HK\$11.60 for every Guotai Junan H Share as quoted on the Stock Exchange as at the Latest Practicable Date, the value of the Proposed Merger Consideration is equivalent to approximately HK\$7.19 for every Haitong H Share.

The table below sets out the comparison between the Proposed Merger Consideration against the closing price of Haitong H Shares for certain periods, after deducting the Haitong 2024 Interim Dividend or the Guotai Junan 2024 Interim Dividend (where applicable).

	Premium/(discount) of the value of the Proposed Merger Consideration for every Haitong H Share over/to the closing price of Haitong H Share, based on the closing price of HK\$7.91 (after deducting the Guotai Junan 2024 Interim Dividend) and HK\$11.60 for every Guotai Junan H Share as quoted on the Stock Exchange respectively on	
	the Last Trading Date (%)	the Latest Practicable Date (%)
Every Haitong H Share as quoted on the Stock Exchange on the Last Trading Date of HK\$3.63, after deducting the Haitong 2024 Interim Dividend	35.1	98.1
Average closing price of approximately HK\$3.46 for every Haitong H Share as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Date, after deducting the Haitong 2024 Interim Dividend	41.7	107.9
Average closing price of approximately HK\$3.46 for every Haitong H Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date, after deducting the Haitong 2024 Interim Dividend	41.7	107.9
Average closing price of approximately HK\$3.65 for every Haitong H Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date, after deducting the Haitong 2024 Interim Dividend	34.4	97.0
Average closing price of approximately HK\$3.73 for every Haitong H Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date, after deducting the Haitong 2024 Interim Dividend	31.5	92.8
Every Haitong H Share as quoted on the Stock Exchange on the Latest Practicable Date of HK\$6.96	(29.5)	3.3

Based on the respective closing prices of Guotai Junan H Shares and Haitong H Shares on the Last Trading Date after deducting the Guotai Junan 2024 Interim Dividend and the Haitong 2024 Interim Dividend respectively, the value of the Proposed Merger Consideration represents a premium of approximately 35.1% over the value of each Haitong H Share.

The value of the Proposed Merger Consideration, based on the closing price of Guotai Junan H Shares on the Last Trading Date after deducting the Guotai Junan 2024 Interim Dividend, represents premiums of approximately 41.7%, 41.7%, 34.4% and 31.5% over the average closing prices of Haitong H Shares for the 10, 30, 90 and 180 trading days up to and including the Last Trading Date respectively after deducting the Haitong 2024 Interim Dividend.

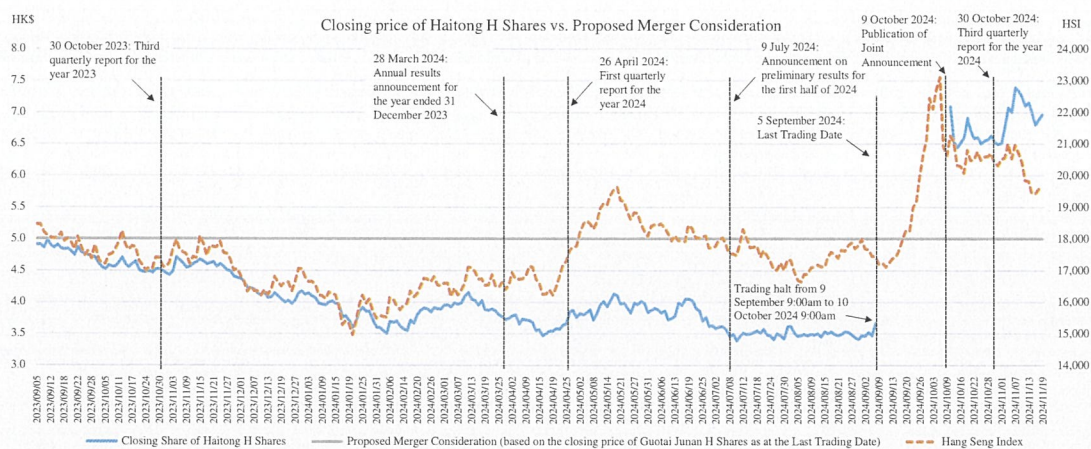
The value of the Proposed Merger Consideration, based on the closing price of Guotai Junan H Shares on the Latest Practicable Date, represents premiums of approximately 107.9%, 107.9%, 97.0% and 92.8% over the average closing prices of Haitong H Shares for the 10, 30, 90 and 180 trading days up to and including the Last Trading Date respectively after deducting the Haitong 2024 Interim Dividend.

We are aware that the value of the Proposed Merger Consideration (based on the closing price of Guotai Junan H Shares on the Last Trading Date after deducting the Guotai Junan 2024 Interim Dividend) when compared against the value of each Haitong H Share (based on the closing price on the Latest Practicable Date) represents a discount of approximately 29.5%. We note that there is a period of 49 trading days between the Last Trading Date and the Latest Practicable Date and between these two dates, the closing prices of Haitong H Shares had surged substantially following the publication of the Joint Announcement on 9 October 2024, as further discussed below. For completeness of analysis, we note that the closing prices of Guotai Junan H Shares exhibited similar trading pattern (as further illustrated in the section headed “5.3. Historical relative market price performance” below) between the Last Trading Date and the Latest Practicable Date, indicating that the value of the Proposed Merger Consideration had also moved in tandem. Therefore, from a share exchange perspective, we are of the view that this discount rate which manifested by comparing prices on two different dates (being the Last Trading Date and the Latest Practicable Date during which this significant corporate action of Proposed Merger had been announced) is not a meaningful factor for the Disinterested Haitong H Shareholders when assessing the fairness and reasonableness of the Exchange Ratio.

Based on the respective closing prices of Guotai Junan H Shares and Haitong H Shares on the Latest Practicable Date, the value of the Proposed Merger Consideration represents a premium of approximately 3.3% over the value of each Haitong H Share.

Additionally, we note an alternative illustration of the Exchange Ratio comparison as set out in the paragraph headed “(1) Comparison of the Exchange Ratio” under the section headed “5. Comparisons of value” in the “Terms and information of the Proposed Merger and the Proposed Placement” contained in the Joint Circular. The Exchange Ratio, being 0.62, is higher than those indicative exchange ratios, being 0.46, 0.45 and 0.46, as implied by the respective (volume-weighted average) H share trading prices of Guotai Junan Securities and Haitong Securities as at the Last Trading Date, 20 and 60 trading days leading up to the date of the Joint Announcement respectively, which is reasonable.

Set out below is a chart showing (i) the closing prices of Haitong H Shares during the period from 5 September 2023, being one year before the Last Trading Date, to 5 September 2024, being the Last Trading Date (the “**Pre-Announcement Period**”) and up to the Latest Practicable Date (the “**Post-Announcement Period**”) (collectively, the “**Review Period**”); and (ii) the value of the Proposed Merger Consideration based on the closing price of Guotai Junan H Shares as at the Last Trading Date. We are of the view that the price performance of the Haitong H Shares during the Review Period can fairly and sufficiently reflect the recent market perception on Haitong Securities’ performance and outlook.



Source: Hong Kong Stock Exchange website (www.hkex.com.hk)

During the Pre-Announcement Period, the highest and lowest closing prices of Haitong H Shares were HK\$4.98 and HK\$3.39 per share recorded on 11 September 2023 and 10 July 2024 respectively. The market value of the Proposed Merger Consideration based on the closing price of Guotai Junan H Shares as at the Last Trading Date, being approximately HK\$5.00, was above the closing prices of Haitong H Shares throughout the aforesaid period.

As illustrated in the graph above, we note that the closing prices of Haitong H Shares were in general on a downward trend during the Pre-Announcement Period. After recording its highest at HK\$4.98 per share on 11 September 2023, the closing price of Haitong H Shares dropped to a low of HK\$3.50 per share on 5 February 2024. This was in line with the overall market performance as evidenced by the Hang Seng Index, which decreased from 18,096 to 15,510 during the aforementioned period. Thereafter, closing prices of Haitong H Shares had traded between HK\$4.15 per share and HK\$3.46 per share during the period from 6 February 2024 to 9 July 2024. After Haitong Securities published its announcement on preliminary results for 1H2024 on 9 July 2024, the closing price of Haitong H Shares recorded its lowest at HK\$3.39 per share on 10 July 2024. The closing prices of Haitong H Shares then remained relatively stable up to the Last Trading Date.

During the Post-Announcement Period, and when the trading of Haitong H Shares resumed after the publication of the Joint Announcement, closing price of Haitong H Shares surged substantially and reached HK\$7.09 per share on 10 October 2024. This could potentially be attributed to (i) the Proposed Merger announced; and (ii) the overall market performance,

as evidenced by the Hang Seng Index during the period when trading of Haitong H Shares was suspended, which increased significantly from 17,197 as of 9 September 2024 to 20,637 as of 9 October 2024. As at the Latest Practicable Date, Haitong H Shares closed at HK\$6.96 per share.

Overall, the market value of the Proposed Merger Consideration represented premiums over the closing prices of Haitong H Shares, and therefore we consider that the Exchange Ratio is fair and reasonable from a market value comparison perspective.

5.2. Underlying value of the Proposed Merger Consideration against the net asset value and profits attributable to owners of Haitong Securities

In addition to market value comparison, we have also considered from the perspectives of underlying asset value and relative profitability.

Underlying asset value comparison

Set out below is the comparison between the underlying asset value of the Proposed Merger Consideration (being the underlying asset value of 0.62 Guotai Junan H Shares) and the underlying asset value of each Haitong H Share.

	Underlying asset value of the Proposed Merger Consideration	Underlying asset value of each Haitong H Share
Total equity attributable to owners of Guotai Junan Securities/Haitong Securities based on their respective latest published financial information <i>(in RMB) (Approximate)</i>	168,096,267,000 ^(note 1)	161,228,933,000 ^(note 2)
Total number of issued shares (A+H shares) of Guotai Junan Securities/Haitong Securities as at the Latest Practicable Date	8,903,730,620	13,064,200,000
Net asset value per share attributable to owners of Guotai Junan Securities/Haitong Securities <i>(in RMB) (A)</i>	18.88	12.34
Exchange Ratio <i>(B)</i>	0.62	N/A
Underlying asset value <i>(in RMB)</i> <i>(A) x (B)</i>	11.71	12.34

Notes:

- (1) The figure was extracted from Guotai Junan 2024 Interim Report, where it was rounded to the nearest thousand.
- (2) The figure was extracted from the audited consolidated financial statements of the Haitong Group for the nine months ended 30 September 2024 as set out in Appendix II to the Joint Circular, where it was rounded to the nearest thousand.

From the table above, the underlying asset value of the Proposed Merger Consideration represents a slight discount of approximately 5.1% to the underlying asset value of each Haitong H Share.

Profitability comparison

Set out below is the comparison between the profit attributable to owners of the Proposed Merger Consideration (being the profit attributable to 0.62 Guotai Junan H Shares) and the profit attributable to owners for each Haitong H Share.

	Profit attributable to owners under the Proposed Merger Consideration	Profit attributable to owners for each Haitong H Share
Profit attributable to owners of Guotai Junan Securities/Haitong Securities based on their respective latest published audited financial information <i>(in RMB) (Approximate)</i>	9,374,143,000 ^(note 1)	1,008,406,000 ^(note 2)
Adjusted weighted average number of ordinary shares (A+H shares) in issue of Guotai Junan Securities during the financial year/Number of shares in issue of Haitong Securities during the financial year <i>(Approximate)</i>	9,047,308,000	13,055,322,000
Basic earnings per share attributable to owners of Guotai Junan Securities/Haitong Securities <i>(in RMB) (A)</i>	0.98	0.08
Exchange Ratio <i>(B)</i>	0.62	N/A
Profit attributable <i>(in RMB)</i> <i>(A) x (B)</i>	0.61	0.08

Notes:

- (1) The figure was extracted from Guotai Junan 2023 Annual Report, where it was rounded to the nearest thousand.
- (2) The figure was extracted from Haitong 2023 Annual Report, where it was rounded to the nearest thousand.

From the table above, the profit attributable to owners under the Proposed Merger Consideration represents substantial premium of over six times to the profit attributable to owners of each Haitong H Share. The comparatively low level of profit attributable to shareholders of Haitong Securities in FY2023 was mainly affected by relatively large losses of the trading and institutional client service segment of Haitong Group’s overseas business, which were due to fair value changes of the investment securities held as well as increase in finance costs under the high interest rate environment. We noted that the above factors are contingent on market changes.

Based on the above comparisons of underlying asset value and profit attributable to owners under the Proposed Merger Consideration, we are of the view that the discount in terms of underlying asset value is to be weighed against the substantial premium in terms of profit attributable to owners. Overall this renders the Exchange Ratio of Proposed Merger from this perspective fair and reasonable.

Additionally, for the Disinterested Haitong H Shareholders’ information, we have set out the pro forma net asset value per share and earnings per share of the Enlarged Group in the section headed “8. Pro forma financials of the Enlarged Group” below.

5.3. Historical relative market price performance

In assessing the reasonableness, from the point of view of recent market price trend, we have conducted an analysis on the market prices of Guotai Junan H Shares and Haitong H Shares. Set out below is a chart showing the movement of the closing prices of Guotai Junan H Share and Haitong H Shares during the Review Period, with a base of 100 as at 5 September 2023.



Source: Hong Kong Stock Exchange website (www.hkex.com.hk)

During the Pre-Announcement Period, the price trends of Haitong H Shares and Guotai Junan H Shares were similar, with both trading below their respective base levels for a substantial portion of the period. During the Post-Announcement Period, while the share prices of Haitong H Share and Guotai Junan H Shares increased substantially compared to their respective base levels as at 5 September 2023, their share price trends have generally remained aligned. This indicates that our analysis on the market value comparison above based on the Exchange Ratio continues to be valid up to the Latest Practicable Date. Since our market value price analysis is time-sensitive, Disinterested Haitong H Shareholders should continue to monitor the relative share price movements of Haitong H Shares and Guotai Junan H Shares.

5.4. Summary of sections 5.1 to 5.3

Having considered that (i) the value of the Proposed Merger Consideration represented premiums over the closing prices (as well as the average closing prices for the 10, 30, 90 and 180 trading days up to and including the Last Trading Date) of Haitong H Shares as set out under section 5.1 above; (ii) the price trends of Haitong H Shares and Guotai Junan H Shares were generally aligned during the Review Period as set out under section 5.3 above; and (iii) the respective discount and premium to Haitong H Shares from the perspective of underlying asset value and profit attributable to owners as set out under section 5.2 above, we are of the view that the Proposed Merger Consideration, and accordingly the Exchange Ratio, is fair and reasonable.

5.5. Historical liquidity of Haitong H Shares and Guotai Junan H Shares

As the Disinterested Haitong H Shareholders will own Guotai Junan H Shares if the Proposed Merger is being approved, we have also considered the liquidity of Haitong H Shares and Guotai Junan H Shares. The table below summarises the average daily trading volume of shares on a monthly basis, and the respective percentage of the average daily trading volume of Haitong H Shares and Guotai Junan H Shares during the Review Period. These figures are compared to the total number of issued Haitong H Shares and Guotai Junan H Shares respectively.

Historical liquidity of Haitong H Shares

	Average daily trading volume <i>(shares)</i>	Approximate % of average daily trading volume to total issued Haitong H Shares as at the relevant month end
2023		
September	4,483,322	0.131%
October	7,320,824	0.215%
November	4,363,041	0.128%
December	5,399,015	0.158%
2024		
January	8,574,491	0.251%
February	9,858,951	0.289%
March	7,420,137	0.218%
April	8,465,726	0.248%
May	12,069,358	0.354%
June	12,499,601	0.367%
July	7,681,446	0.225%
August	7,241,390	0.212%
September (up to the Last Trading Date)	10,777,976	0.316%
October (from 10 October 2024) ^(note)	97,280,182	2.853%
November (up to the Latest Practicable Date)	28,339,317	0.831%

Historical liquidity of Guotai Junan H Shares

	Average daily trading volume (shares)	Approximate % of average daily trading volume to total issued Guotai Junan H Shares as at the relevant month end
2023		
September	754,278	0.054%
October	601,980	0.043%
November	958,157	0.069%
December	1,097,316	0.079%
2024		
January	1,138,632	0.082%
February	931,522	0.067%
March	1,671,050	0.120%
April	1,726,462	0.124%
May	2,923,947	0.210%
June	2,324,413	0.167%
July	1,125,115	0.081%
August	9,136,376	0.656%
September (up to the Last Trading Date)	2,464,100	0.177%
October (from 10 October 2024) ^(note)	44,047,730	3.165%
November (up to the Latest Practicable Date)	15,672,744	1.126%

Note: Haitong H Shares and Guotai Junan H Shares were suspended for trading from 9 September 9:00 am to 10 October 2024 9:00 am.

Source: Hong Kong Stock Exchange website (www.hkex.com.hk)

During the Review Period, the average daily trading volume of Haitong H Shares was approximately 13,801,948 shares, representing approximately 0.405% over the number of total issued Haitong H Shares. As illustrated in the above table, the percentage of average daily trading volume of Haitong H Shares in relation to the number of total issued Haitong H Shares ranged from approximately 0.128% to 2.853%.

In relation to Guotai Junan H Shares, the average daily trading volume during the Review Period was approximately 5,014,064 shares, representing approximately 0.360% over the number of total issued Guotai Junan H Shares. This percentage is slightly lower than that of Haitong H Shares as discussed above. As illustrated in the above table, the percentage of average daily trading volume of Guotai Junan H Shares in relation to the number of total issued Guotai Junan H Shares ranged from approximately 0.043% to 3.165%. We note that the trading volume of Guotai Junan H Shares in August 2024, being the month preceding to the Last Trading Date, was significantly higher compared to levels observed during the Pre-Announcement Period. We are not aware of any specific reason for the relatively significant trading volume recorded in August 2024. It is however observed that the trading liquidity of both Guotai Junan H Shares and Haitong H Shares similarly increased substantially after the publication of the Joint Announcement and up to the Latest Practicable Date.

Based on the above observations, whilst the overall trading liquidity of Haitong H Shares appears to be higher than that of Guotai Junan H Shares, we note that the levels of share trading activity were generally in line. In addition, we have also considered that subsequent to the Proposed Merger, the asset and operational scale as well as the market capitalisation of the Post-Merger Company will be significantly larger. The public float (in terms of size) of the Post-Merger Company will also be larger and consisting of shareholder bases of both Haitong Securities and Guotai Junan Securities. These factors will likely attract further institutional investors following and with enhanced trading liquidity. Disinterested Haitong H Shareholders can therefore expect improved liquidity by holding Guotai Junan H Shares compared to holding Haitong H Shares.

5.6. *Comparable analysis*

In evaluating the terms of the Proposed Merger, we have attempted to perform analysis on the price-to-book ratios (the “**P/B Ratio**”), which is a commonly used valuation yardstick for financial institutions, of companies listed on the Hong Kong Stock Exchange and are engaged in similar businesses to those of Haitong Securities (the “**Comparable Companies**”). For completeness of analysis, we have also made reference to price-to-earnings ratios (the “**P/E Ratio**”), being another common parameter in assessing a company’s value.

On the basis that (i) Haitong Securities’ primary businesses are wealth management, investment banking, asset management, trading and institutional client services and financial leasing; (ii) the H shares of Haitong Securities are listed on the main board of the Hong Kong of Stock Exchange; and (iii) Haitong Securities’ revenue for the year ended 31 December 2023 was approximately RMB33.0 billion, we have set out the following selection criteria for the purpose of identifying Comparable Companies:

- (i) the company should be a securities firm with a business scope similar to that of Haitong Securities, with a geographic focus in China;
- (ii) the shares of the company are listed on the main board of the Hong Kong Stock Exchange; and
- (iii) the company should have a comparable scale of operation to Haitong Securities, with latest annual revenue ranging between RMB11.0 billion (approximately one third of Haitong Securities’ revenue for the year ended 31 December 2023) and RMB100.0 billion (approximately three times of Haitong Securities revenue for the year ended 31 December 2023).

Based on the above criteria and by excluding Guotai Junan Securities as it is a party to the Proposed Merger, we have identified ten Comparable Companies which is an exhaustive list.

Name and stock code	Annual revenue (Note 1) (RMB million)	Profit attributable to shareholders of the company (RMB million)	Net assets attributable to shareholders as at 30 June 2024 (RMB million)	Market capitalisation as at the Last Trading Date (RMB million)	Market capitalisation as at the Latest Practicable Date (RMB million)	P/B Ratio based on the market capitalisation as at the Last Trading Date (Note 5) (times)	P/B Ratio based on the market capitalisation as at the Latest Practicable Date (Note 6) (times)	P/E Ratio based on the market capitalisation as at the Last Trading Date (Note 7) (times)	P/E Ratio based on the market capitalisation as at the Latest Practicable Date (Note 8) (times)
CITIC Securities Co., Ltd. (6030.HK)	77,202	19,721	279,272	260,833	435,265	0.93	1.56	13.23	22.07
China International Capital Corporation Limited (3908.HK)	33,792	6,156	105,631	95,603	130,103	0.91	1.23	15.53	21.13
Huatai Securities Co., Ltd. (6886.HK)	45,227	12,751	180,087	105,191	156,277	0.58	0.87	8.25	12.26
GF Securities Co., Ltd. (1776.HK)	32,093	6,978	140,703	83,324	116,780	0.59	0.83	11.94	16.74
CSC Financial Co., Ltd. (6066.HK)	31,362	7,034	102,615	129,951	195,712	1.27	1.91	18.47	27.82
China Galaxy Securities Co., Ltd. (6881.HK)	29,688	7,879	133,932	93,023	138,274	0.69	1.03	11.81	17.55

Name and stock code	Annual revenue (Note 1) (RMB million)	Profit attributable to shareholders of the company (RMB million)	Net assets attributable to shareholders as at 30 June 2024 (Note 2) (RMB million)	Market capitalisation as at the Last Trading Date (Note 3) (RMB million)	Market capitalisation as at the Latest Practicable Date (Note 4) (RMB million)	P/B Ratio	P/B Ratio	P/E Ratio based	P/E Ratio based
						based on the market capitalisation as at the Last Trading Date (Note 5) (times)	based on the market capitalisation as at the Latest Practicable Date (Note 6) (times)	on the market capitalisation as at the Last Trading Date (Note 7) (times)	on the market capitalisation as at the Latest Practicable Date (Note 8) (times)
China Merchants Securities Co., Ltd. (6099.HK)	28,191	8,764	124,452	118,392	164,967	0.95	1.33	13.51	18.82
Shenwan Hongyuan Group Co., Ltd. (6806.HK)	27,334	4,606	101,851	100,312	129,923	0.98	1.28	21.78	28.21
Orient Securities Co., Ltd. (3958.HK)	16,363	2,754	80,411	67,650	85,332	0.84	1.06	24.57	30.99
Everbright Securities Co., Ltd. (6178.HK)	14,041	4,271	66,970	59,960	76,569	0.90	1.14	14.04	17.93
					High end	1.27	1.91	24.57	30.99
					Low end	0.58	0.83	8.25	12.26
					Average	0.86	1.22	15.31	21.35
					Median	0.90	1.19	13.77	19.98
					139,820				
Haitong Securities	33,020	1,008	163,028	103,477 (Note 9)	(Note 10)	0.63	0.86	102.61	138.65

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Notes:

- (1) Extracted from the respective annual reports of Haitong Securities and the Comparable Companies for the year ended 31 December 2023.
- (2) Extracted from the respective interim reports of Haitong Securities and the Comparable Companies for the six months ended 30 June 2024.
- (3) The market capitalisation of the Comparable Companies as at the Last Trading Date represents the sum of the market capitalisation of both A shares and H shares. The market capitalisation of A shares and H shares is calculated by multiplying the number of outstanding A shares and H shares as at 30 September 2024 by the respective closing prices of A shares and H shares as at the Last Trading Date. An exchange rate of HK\$1.00 to RMB0.90767 has been applied, being the central parity rate as announced by the People's Bank of China as at the date of the Joint Announcement.
- (4) The market capitalisation of the Comparable Companies as at the Latest Practicable Date represents the sum of the market capitalisation of both A shares and H shares. The market capitalisation of A shares and H shares is calculated by multiplying the number of outstanding A shares and H shares as at 30 September 2024 by the respective closing prices of A shares and H shares as at the Latest Practicable Date. An exchange rate of HK\$1.00 to RMB0.90767 has been applied, being the central parity rate as announced by the People's Bank of China as at the date of the Joint Announcement.
- (5) P/B Ratio was calculated based on the market capitalisation as at the Last Trading Date and divided by the net assets attributable to shareholders as at 30 June 2024.
- (6) P/B Ratio was calculated based on the market capitalisation as at the Latest Practicable Date and divided by the net assets attributable to shareholders as at 30 June 2024.
- (7) P/E Ratio was calculated based on the market capitalisation as at the Last Trading Date and divided by profit attributable to shareholders of the company for the year ended 31 December 2023.
- (8) P/E Ratio was calculated based on the market capitalisation as at the Latest Practicable Date and divided by profit attributable to shareholders of the company for the year ended 31 December 2023.
- (9) The implied market capitalisation of Haitong Securities as at the Last Trading Date represents the sum of the implied market capitalisation of both Haitong A Shares and Haitong H Shares. The implied market capitalisation of Haitong A Shares and Haitong H Shares is calculated by multiplying the number of outstanding Haitong A Shares and Haitong H Shares as at 30 September 2024 by the value of the Proposed Merger Consideration (calculated based on the respective closing prices of Guotai Junan A Shares and Guotai Junan H Shares as at the Last Trading Date).
- (10) The implied market capitalisation of Haitong Securities as at the Latest Practicable Date represents the sum of the market capitalisation of both Haitong A Shares and Haitong H Shares. The implied market capitalisation of Haitong A Shares and Haitong H Shares is calculated by multiplying the number of outstanding Haitong A Shares and Haitong H Shares as at the Latest Practicable Date by the value of the Proposed Merger Consideration (calculated based on the respective closing price of Guotai Junan A Shares and Guotai Junan H Shares as at the Latest Practicable Date).

The P/B Ratios of the Comparable Companies as at the Last Trading Date ranged from approximately 0.58 times to 1.27 times, with a mean and median of approximately 0.86 times and 0.90 times respectively. The valuation of Haitong Securities based on the implied market capitalisation arrived at using the Proposed Merger Consideration calculated based on the respective closing prices of Guotai Junan A Shares and Guotai Junan H Shares as at the Last Trading Date, translates into an implied P/B Ratio of approximately 0.63 times. This is within the range of those of the Comparable Companies, whilst below the mean and median.

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In addition, we set out the P/B Ratios of the Comparable Companies as at the Latest Practicable Date for the Disinterested Haitong H Shareholders' reference.

The P/B Ratios of the Comparable Companies as at the Latest Practicable Date ranged from approximately 0.83 times to 1.91 times, with a mean and median of approximately 1.22 times and 1.19 times respectively. The implied P/B Ratio of Haitong Securities as at the Latest Practicable Date (calculated in accordance to the same formula as described above, with the respective closing prices of Guotai Junan A Shares and Guotai Junan H Shares as at the Latest Practicable Date being adopted) is approximately 0.86 times, which is within the range of those of the Comparable Companies and lower than the mean and median.

The P/E Ratios of the Comparable Companies as at the Last Trading Date ranged from approximately 8.25 times to 24.57 times, with a mean and median of approximately 15.31 times and 13.77 times respectively. The valuation of Haitong Securities based on the implied market capitalisation arrived at using the Proposed Merger Consideration calculated based on the respective closing prices of Guotai Junan A Shares and Guotai Junan H Shares as at the Last Trading Date, translates into an implied P/E Ratio of approximately 102.61 times. This is above the range of those of the Comparable Companies. In addition, the implied P/E Ratio of Haitong Securities, based on the implied market capitalisation arrived at using the Proposed Merger Consideration calculated based on the respective closing prices of Guotai Junan A Shares and Guotai Junan H Shares as at the Latest Practicable Date, is approximately 138.65 times, which is above the range of those of the Comparable Companies. We note that the relatively high implied P/E Ratio of Haitong Securities is partly due to its nominal level of profit attributable to shareholders recorded for FY2023. For discussion relating to Haitong Securities' historical financial performance, please refer to the section headed "1.2. Historical financial performance of Haitong Securities" above. In light of this, for reference only, the implied P/E Ratios of Haitong Securities, calculated based on (i) the implied market capitalisation calculated by multiplying the number of outstanding Haitong A Shares and Haitong H Shares as at 30 September 2024 by the value of the Proposed Merger Consideration (calculated based on the respective closing prices of Guotai Junan A Shares and Guotai Junan H Shares as at the Last Trading Date and the Latest Practicable Date respectively); and (ii) the profit attributable to shareholders of Haitong Securities for year ended 31 December 2022, are approximately 15.81 times and 21.36 times respectively.

In summary, having considered (i) from a P/B Ratio perspective, the implied ratios of Haitong Securities are within the ranges of those of the Comparable Companies, despite below the mean and median; and (ii) for completeness of analysis, from a P/E Ratio perspective, the implied ratios of Haitong Securities are above the ranges of those of the Comparable Companies, we are of the view that overall, the implied valuation of Haitong Securities under the terms of the Proposed Merger is fair and reasonable from the perspective of market comparable analysis based on the abovementioned commonly adopted yardsticks.

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Additionally, since the Proposed Merger comprises the Share Exchange, we note that the P/B Ratios of Haitong Securities and Guotai Junan Securities were approximately 0.59² times and 0.72³ times respectively as at the Last Trading Date. In other words, the Share Exchange entails Disinterested Haitong H Shareholders exchanging its discounted Haitong H Shares for Guotai Junan H Shares which are also discounted in terms of book value. The effects of the aforesaid discounts are therefore mitigated.

6. Arrangement for Haitong Dissenting Shareholders

Pursuant to PRC regulatory requirements, cash put options will be provided to the Haitong Dissenting Shareholders. Subject to the satisfaction or waiver (as applicable) of all the Conditions, the Qualified Haitong Dissenting Shareholders will be entitled to sell their Haitong Shares to the Haitong Put Option Provider(s), being (i) (with respect to Haitong A Shares) Taiping Life (via its asset manager, Taiping Asset Management Co., Ltd) and BOCI (China), at a cash price equal to RMB9.28 per Haitong A Share; and (ii) (with respect to Haitong H Shares) Taiping Life (via its asset manager, Taiping Assets Management (Hong Kong) Company Limited) and BOCI Asia, at a cash price equal to HK\$4.16 per Haitong H Share. The cash amounts have been determined according to the highest trading prices of Haitong A Shares and Haitong H Shares on the SSE and the Hong Kong Stock Exchange, respectively, during the 60 trading days of the Haitong Shares prior to the date of the Joint Announcement. For further details, please refer to the paragraph headed “(3) Put Options and Dissenting Shareholders who Exercise the Put Options” under the section headed “2. Terms of the Proposed Merger” in the “Terms and information of the Proposed Merger and the Proposed Placement” contained in the Joint Circular.

In this regard, we wish to highlight the following factors and observations for the Disinterested Haitong H Shareholders to consider:

- Only those Haitong H Shareholders who vote against the Proposed Merger at both the (A) Haitong EGM and (B) Haitong H Shareholders’ Class Meeting, will be eligible to exercise the Haitong Put Option. However, if the Proposed Merger is ultimately not implemented, Haitong Dissenting Shareholders shall have no right to exercise the Haitong Put Option.

2 Calculated by dividing the market capitalisation of Guotai Junan Securities as at the Last Trading Date by net assets attributable to the equity holders of Guotai Junan Securities as at 30 June 2024. The market capitalisation of Guotai Junan Securities as at the Last Trading Date represents the sum of the market capitalisation of both Guotai Junan A shares and Guotai Junan H shares based on the respective closing prices of Guotai Junan A shares and Guotai Junan H shares as at the Last Trading Date. An exchange rate of HK\$1.00 to RMB0.90767 has been applied, being the central parity rate as announced by the People’s Bank of China as at date of the Joint Announcement.

3 Calculated by dividing the market capitalisation of Haitong Securities as at the Last Trading Date by net assets attributable to the shareholders of Haitong Securities as at 30 June 2024. The market capitalisation of Haitong Securities as at the Last Trading Date represents the sum of the market capitalisation of both Haitong A shares and Haitong H shares based on the respective closing prices of Haitong A shares and Haitong H shares as at the Last Trading Date. An exchange rate of HK\$1.00 to RMB0.90767 has been applied, being the central parity rate as announced by the People’s Bank of China as at the date of the Joint Announcement.

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It should be noted that one of the conditions for passing the relevant resolution for the Proposed Merger is “(i) approval is given by 75% or more of the votes attaching to the Haitong H Shares held by the Disinterested Haitong H Shareholders that are cast either in person or by proxy at the Haitong H Shareholders’ Class Meeting; and (ii) the number of votes cast against the resolution is not more than 10% of the votes attaching to all Haitong H shares held by the Disinterested Haitong H Shareholders”.

- The Proposed Merger Consideration of HK\$7.19, calculated based on the closing price of Guotai Junan H Share on the Latest Practicable Date, is higher than the price of HK\$4.16 per Haitong H Share.
- The rationale of the Proposed Merger is elaborated in the section headed “4. Rationale of the Proposed Merger” above, in particular from the perspective of Disinterested Haitong H Shareholders, the Proposed Merger provides the opportunity to retain equity exposure in the financially stronger and more comprehensive scale Post-Merger Company with larger market capitalisation.

With the above factors in mind, despite the availability of cash exit for eligible Disinterested Haitong H Shareholders who vote against the Proposed Merger, our recommendation relating to the Proposed Merger and Proposed Placement in the section headed “Recommendations” below remains, namely to recommend the Haitong IBC to recommend the Independent Haitong Shareholders and the Disinterested Haitong H Shareholders to vote in favour of the Proposed Merger (including the Special Deal) and the Proposed Placement at the Haitong EGM and the Haitong H Shareholders’ Class Meeting.

6.1. BOCI Asia Haitong Put Option Arrangement as the Special Deal

BOCI Asia and Taiping Life (via its asset manager, Taiping Assets Management (Hong Kong) Company Limited) are Haitong Put Option Providers with respect to Haitong H Shareholders. BOCI Asia is part of the BOC Group. As at the Latest Practicable Date, the BOC Group, as part of its ordinary course of business, holds 3,593,137 Haitong A Shares (representing approximately 0.04% of the total issued Haitong A Shares and 0.03% of total issued Haitong Shares respectively) and 4,024,000 Haitong H Shares (representing approximately 0.12% of the total issued Haitong H Shares and 0.03% of total issued Haitong Shares respectively) in aggregate. The BOCI Asia Haitong Put Option Arrangement is not extended to all Haitong Shareholders, and is therefore considered as the Special Deal. As the Special Deal is not capable of being extended to all Haitong Shareholders, it is subject to the consent of the Executive and the approval of the Independent Haitong Shareholders. Neither the Proposed Merger nor the Proposed Placement are conditional upon the undertaking of the Special Deal. If the Special Deal is not approved, the Proposed Merger, the Proposed Placement and the provision of the Haitong Put Options by the other Haitong Put Option Providers will still proceed.

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Since the BOCI Asia Haitong Put Option Arrangement is considered as a special deal under Rule 25 of the Takeovers Code, we, the Haitong IFA, have considered the factors below in assessing the fairness and reasonableness of the BOCI Asia Haitong Put Option Arrangement:

- (i) *Cash put options are provided pursuant to PRC regulatory requirements and are mandatory in mergers by absorption transactions of PRC listed companies*

The Haitong Put Option is being offered as part of regulatory requirements as similar cash put options are mandatory in mergers by absorption transactions involving PRC-listed companies. We have identified an exhaustive list of three recent mergers by absorption based on the following criteria: (i) mergers by absorption between listed companies in the PRC; and (ii) an initial announcement published within three years preceding the Last Trading Day, being (a) the merger between China Shipbuilding Industry Company Limited (stock code: 601989.SH) and China CSSC Holdings Limited (stock code: 600150.SH) with initial announcement on 3 September 2024), (b) the merger between AVIC Electromechanical Systems Co., Ltd (stock code: 002013.SZ) and China Avionics Systems Co., Ltd. (stock code: 600372.SH) with initial announcement on 6 November 2022), and (c) the merger between and Ningxia Building Materials Group Co., Ltd. (stock code: 600449.SH) and China National Building Materials Technology Co., Ltd (stock code: 834082.NQ) with initial announcement on 28 April 2022). We noted that all these three transactions included cash put options for dissenting shareholders. In addition, in the 2015 merger of CSR Corporation Limited (stock code: 601766.SH) and China CNR Corporation Limited (stock code: 601299.SH) (both of which had A shares and H shares listed prior to the merger, similar to the Proposed Merger), cash put options were also provided to dissenting shareholders.

- (ii) *Reasons selecting BOCI Asia as one of the Haitong Put Option Providers*

Based on our discussion with the Management, the Haitong Put Option Providers with respect to Haitong H Shares (being BOCI Asia and Taiping Life (via its asset manager, Taiping Asset Management (Hong Kong) Company Limited)) were selected after thorough consideration of their ability, including their financial strength, to take on this role. BOCI Asia is an indirect wholly-owned subsidiary of Bank of China Limited, one of the leading financial institutions in the PRC.

We note that BOC Group's shareholding in Haitong Securities is nominal comprising approximately 0.06% of total issued Haitong Shares, as at the Latest Practicable Date. We understand from the Management that BOC Group's small shareholding in Haitong Securities was part of its ordinary course of business and BOC Group had not influenced or exerted any pressure on the Management on the decision of BOCI Asia's appointment as a Haitong Put Option Provider.

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(iii) Passive role as a Haitong Put Option Provider and terms of Haitong Put Option being offered

By committing to becoming a Haitong Put Option Provider, BOCI Asia takes on a passive role and becomes obligated to acquire the Haitong Shares which the Haitong Dissenting Shareholders decide to sell. Qualified Haitong Dissenting Shareholders can make their own decision on whether to sell their Haitong Shares under the Haitong Put Option.

In addition, two Haitong Put Option Providers with respect to Haitong H Shares (being BOCI Asia and Taiping Life (via its asset manager, Taiping Asset Management (Hong Kong) Company Limited)) will offer identical terms for the Haitong Put Options.

(iv) Efforts needed and possible outcome for acting as Haitong Put Option Providers

Based on our observation that the closing price of Haitong H Shares of HK\$6.96 as at the Latest Practicable Date is substantially higher than the exercise price of the Haitong Put Option of HK\$4.16 per Haitong H Share, we believe, barring drastic decrease in market price of Haitong H Shares, it is likely that the number of Haitong H Shares that will be put to BOCI Asia will be nominal. Also, by this time BOCI Asia would likely have to incur losses if the then prevailing market price of Haitong H Shares are below the exercise price of the Haitong Put Option.

Consequently, based on current circumstances, additional benefit that can be derived by BOCI Asia for acting as a Haitong Put Option Provider is likely nominal or it may even incur losses. In addition, we are of the view that the administrative costs incidental to providing such services, if any, are borne by itself irrespective of the outcome.

We also note that the efforts of BOCI Asia in undertaking this role (such as making pre-commitment and setting aside adequate funding) require resources which may not be generally available to other Haitong H Shareholders and hence such role cannot be generally undertaken by other Haitong H Shareholders.

Based on the above, we are of the view that the terms of the BOCI Asia Haitong Put Option Arrangement, which is considered as the Special Deal, are fair and reasonable so far as the Independent Haitong Shareholders are concerned.

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7. Effects of shareholding of Disinterested Haitong H Shareholders

With reference to information set out in the paragraph headed “Shareholding structure chart before and after the Proposed Merger and Proposed Placement” under the section headed “1. Background information of the Proposed Merger” in the “Terms and information of the Proposed Merger and the Proposed Placement” contained in the Joint Circular, below is a table illustrating the potential shareholding effect to Disinterested Haitong H Shareholders as a result of the Proposed Merger.

Shareholding in Haitong Securities as at the Latest Practicable Date

Shareholders	No. of H shares	Approx. % of total number of issued H shares	Approx. % of total number of issued shares
Guosheng Group	255,456,400	7.49%	1.96%
Shanghai Electric Group	307,409,200	9.02%	2.35%
Other Disinterested Haitong H Shareholders	2,842,679,220	83.37%	21.76%
Total Disinterested Haitong H Shareholders	3,405,544,820	99.88%	26.07%

Shareholding in the Post-Merger Company immediately after the Closing Date
(without taking into account the effect of the Proposed Placement)

Shareholders	No. of H shares	Approx. % of total number of issued H shares	Approx. % of total number of issued shares
Guosheng Group	158,382,968	4.52%	0.93%
Shanghai Electric Group	190,593,704	5.44%	1.12%
Other Disinterested Haitong H Shareholders	1,762,461,116 ^(note 1)	50.27%	10.37%
Total Disinterested Haitong H Shareholders	2,111,437,788	60.23%	12.42%

Notes:

- (1) Calculated based on multiplying the number of shares of other Disinterested Haitong H Shareholders as at the Latest Practicable Date by the Exchange Ratio (i.e. 0.62).
- (2) The above table does not take into account any fractional shares.

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As shown in the above table, the shareholding of the Disinterested Haitong H Shareholders will be diluted (i) from approximately 99.88% to approximately 60.23%, in terms of percentage to the total number of issued H shares; and (ii) from approximately 26.07% to approximately 12.42%, in terms of percentage to the total number of issued shares, as a result of the Proposed Merger. Despite a smaller shareholding in the Post-Merger Company as compared to that in Haitong Securities, the shares that the Disinterested Haitong H Shareholders exchanged into are backed by the financially stronger and more comprehensive scale Post-Merger Company with a larger market capitalisation. The larger public float will also facilitate more efficient investment and realisation activities. Overall, we consider that the potential shareholding dilution effect as a result of the Proposed Merger to be acceptable.

8. Pro forma financials of the Enlarged Group

For the purpose of illustrating the financial effects of the Proposed Merger, the pro forma financial information of the Enlarged Group prepared in accordance with IFRS and CASBE respectively, are set out in the “Unaudited pro forma financial information of the Enlarged Group” in Appendix III to the Joint Circular.

Based on information available in Appendix III to the Joint Circular, (i) the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared in accordance with IFRS and based on (a) the audited consolidated statement of financial position of the Guotai Junan Group as at 31 December 2023; (b) the audited consolidated statement of financial position of Haitong Group as at 30 September 2024 as set out in Appendix II to the Joint Circular; and (c) after giving effect to other unaudited pro forma adjustments as described in the accompanying notes; and (ii) the unaudited pro forma consolidated income statement and balance sheet of the Enlarged Group for the year ended 31 December 2023 and the nine months ended 30 September 2024 have been prepared under CASBE.

It should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Enlarged Group would become after Closing.

8.1. Net asset value

Based on the pro forma financial information of the Enlarged Group as set out in Appendix III to the Joint Circular, assuming that the Proposed Merger had been completed on 31 December 2023, the unaudited pro forma net asset value of the Post-Merger Company, prepared in accordance with IFRS, would have been approximately RMB340,666.3 million, which is approximately twice of the audited net assets of Haitong Securities of approximately RMB174,799.6 million as at 31 December 2023.

For illustrative and comparison purpose, based on the Material Information Announcements, the net assets per share of the Post-Merger Company prepared in accordance with CASBE would be approximately RMB18.22 and RMB18.38 as at 31 December 2023 and 30 September 2024 respectively. After multiplying with the Exchange Ratio, the net assets per share would be approximately RMB11.30 and RMB11.40, representing a decrease of approximately 9.6% and 7.6% compared with the net assets per share attributable to owners of Haitong Securities of RMB12.50 and RMB12.34 at the same dates respectively.

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8.2. Earnings

Based on the pro forma financial information of the Enlarged Group as set out in Appendix III to the Joint Circular, assuming that the Proposed Merger had been completed on 1 January 2023, the unaudited pro forma net profit attributable to equity holders of the Enlarged Group, prepared in accordance with CASBE, would be approximately RMB10,675.6 million as at 31 December 2023 and approximately RMB8,658.0 million as at 30 September 2024.

Based on the Material Information Announcements, the earnings per share attributable to owners of the Post-Merger Company prepared in accordance with CASBE would be approximately RMB0.59 and RMB0.48 for FY2023 and the nine months ended 30 September 2024 respectively. After multiplying with the Exchange Ratio, the earnings per share attributable to owners of the Post-Merger Company would be approximately RMB0.37 and RMB0.30 respectively.

For illustrative and comparison purpose, based on the A share annual report of Haitong Securities for the year ended 31 December 2023 published on the SSE, which was prepared in accordance with CASBE, the basic and diluted earnings per share were both RMB0.08. The aforementioned earnings per share attributable to owners of the Post-Merger Company (after taking into account the Exchange Ratio) for FY2023 therefore represents an increase of approximately 362.5% compared with the prevailing earnings per share of Haitong Securities.

9. The Proposed Placement

To raise ancillary fundings to increase the capital, support the development for business lines of the Post-Merger Company, and replenish the working capital, Guotai Junan Securities proposed to approve the issuance of such number of Placement A Shares at an issue price of RMB15.97 per Placement A Share, to the Subscriber for a total consideration of up to RMB10,000,000,000. The net proceeds from the Proposed Placement are intended to be used for international business, trading and investment business, digitalisation and replenishing working capital.

The Subscriber, being Shanghai State-owned Assets Management Co., Ltd. (上海國有資產經營有限公司), is a 23.06% direct shareholder of Guotai Junan Securities and a wholly-owned subsidiary of Shanghai International. Shanghai International is wholly-owned as to 100% by Shanghai SASAC. The Subscriber is principally engaged in industrial investment, capital operation and asset acquisition.

It is expected that the number of Placement A Shares to be issued under the Proposed Placement will not exceed 626,174,076 (with an aggregate nominal value of RMB626,174,076) or 3.55% of the enlarged total issued share capital of the Post-Merger Company (assuming that, other than in relation to the Proposed Merger and Proposed Placement, there will be no change to the shareholding structure of the Post-Merger Company). The final number of Placement A Shares to be issued under the Proposed Placement will be determined by the size of the ancillary funds approved by the SSE and ultimately registered by the CSRC.

The Proposed Placement will be undertaken concurrently with the Share Exchange.

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9.1. Principal terms of the Proposed Placement

Guotai Junan Securities and the Subscriber have entered into the Placement Subscription Agreement on 9 October 2024. Set out below is key terms of the Proposed Placement. For details, please refer to the section headed “6. Proposed Placement” in the “Terms and information of the Proposed Merger and the Proposed Placement” contained in the Joint Circular.

- Parties** : (a) Guotai Junan Securities (as issuer); and
(b) Subscriber (as subscriber).
- Issuance size** : Up to RMB10 billion; and up to 626,174,076 Placement A Shares
- Issue price** : RMB15.97 per Placement A Share (the “**Issue Price**”)
- Conditions Precedent** : The Placement Subscription Agreement shall become effective upon satisfaction of the following conditions:
- (i) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the Guotai Junan Shareholders present and voting in person or by proxy at the Guotai Junan EGM to approve the Proposed Placement;
 - (ii) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the Haitong Shareholders present and voting in person or by proxy at each of the Haitong EGM, the Haitong H Shareholders’ Class Meeting and the Haitong A Shareholders’ Class Meeting to approve the Proposed Placement;
 - (iii) the approval, filing or registration (if applicable) by Shanghai SASAC, SSE and CSRC in respect of the Proposed Placement having been obtained and remaining in effect;
 - (iv) the Merger Agreement becoming effective; and
 - (v) the approval by the shareholder of the Subscriber in respect of the Proposed Placement having been obtained.

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Lock-up : Unless transfers are permitted by Applicable Laws, the Placement A Shares subscribed by the Subscriber pursuant to the Proposed Placement shall be subject to a lock-up period of 60 months from the date of issue of such Placement A Shares. Any additional Guotai Junan A Shares acquired by the Subscriber as a result of certain circumstances including bonus issues or conversion of capital reserves into share capital with respect to the Placement A Shares shall also be subject to the aforementioned lock-up period. Upon expiry of the lock-up period, transfers of the Placement A Shares shall be conducted in accordance with relevant rules of the CSRC and the SSE.

The aforementioned lock-up period shall be adjusted from time to time according to the latest requirements of the CSRC and the SSE.

The Subscriber undertook to comply with the lock-up provisions as set out above.

The Issue Price

For illustrative purpose only, the Issue Price is RMB15.97 per Placement A Share, represents/is:

- (a) a premium of approximately 9.76% over the closing price of each Guotai Junan A Share of RMB14.55 as of the Last Trading Date, after deducting Guotai Junan 2024 Interim Dividend;
- (b) a premium of approximately 12.78% over the volume-weighted average price of RMB14.16 of each Guotai Junan A Share for the 20 trading days immediately prior to the date of the Joint Announcement, after deducting Guotai Junan 2024 Interim Dividend;
- (c) a premium of approximately 15.47% over the Market Reference Price of RMB13.83 of each Guotai Junan A Share for the 60 trading days immediately prior to the date of the Joint Announcement, after deducting the Guotai Junan 2024 Interim Dividend;
- (d) a discount of approximately 18.69% over the closing price of each Guotai Junan A Share of RMB19.64 as of the Latest Practicable Date;
- (e) a premium of approximately 51.66% over the closing price of each Guotai Junan H Share of HK\$11.60 as of the Latest Practicable Date; and
- (f) approximately equal to the audited net asset value of RMB15.97 per share attributable to ordinary shareholders of Guotai Junan Securities as of 31 December 2023, after adjusting for the Guotai Junan 2023 Final Dividend and deducting the Guotai Junan 2024 Interim Dividend.

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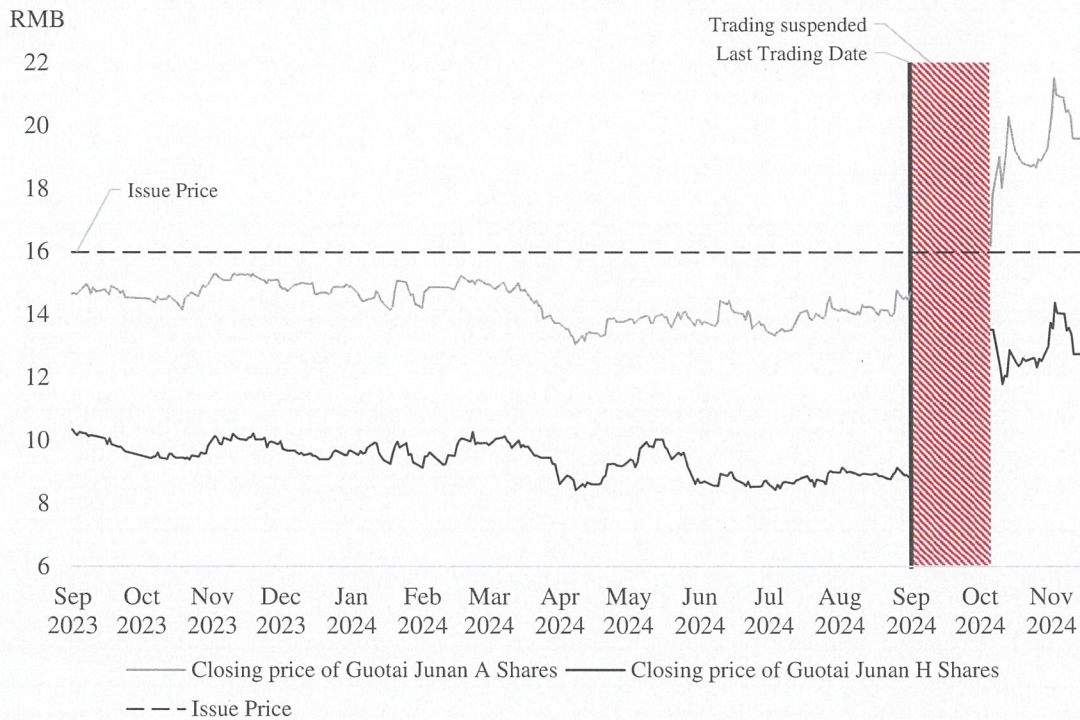
We note that pursuant to the Applicable Laws, the issue price for Placement A Shares shall not be lower than (a) 80% of the volume-weighted average price for the 20 trading days of Guotai Junan A Shares immediately prior to the date of the Joint Announcement; and (b) the net asset value per share attributable to ordinary shareholders of the listed company based on the audited consolidated statements of the most recent financial year prior to the date of the Joint Announcement of Guotai Junan Securities and deducting the Guotai Junan 2024 Interim Dividend and Guotai Junan 2023 Final Dividend. Based on the above analysis and illustrations, the Proposed Placement Issue Price is therefore in compliance with the Applicable Laws.

To further assess the fairness and reasonableness of the Issue Price, we have conducted the following analysis:

Share price performance analysis

Set out below is a chart showing the movement of the daily closing prices of Guotai Junan A Shares as well as the Issue Price during the period from 5 September 2023 (being the 12-month period precedent to the Last Trading Date) to the Last Trading Date (the “**Placement Review Period**”) and up to the Latest Practicable Date. We consider the Placement Review Period of 12 months adequately reflects recent market perception of the value of Guotai Junan A Shares. For completeness, we also present the daily closing prices of Guotai Junan H Shares (translated into RMB value) in the same chart for reference.

Historical daily closing price of Guotai Junan A Shares and Guotai Junan H Shares



Source: SSE and Hong Kong Stock Exchange

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During the Placement Review Period, the Issue Price was higher than the closing prices of Guotai Junan A Shares. For reference, the Issue Price was higher than the closing prices of Guotai Junan H Shares as well during the Placement Review Period and up to the Latest Practicable Date.

The lowest and highest closing prices of Guotai Junan A Shares were RMB13.05 (or RMB12.50 after adjusting for the final dividend declared by Guotai Junan Securities for 2023 and the Guotai Junan 2024 Interim Dividend) per Guotai Junan A Share recorded on 12 April 2024, and RMB15.29 (or RMB14.74 after adjusting for the final dividend declared by Guotai Junan Securities for 2023 and the Guotai Junan 2024 Interim Dividend) per Guotai Junan A Share recorded on 6 November 2023 and 15 November 2023 respectively.

The Issue Price represents a premium of approximately 4.45% (or 8.34% after adjusting for the final dividend declared by Guotai Junan Securities for 2023 and the Guotai Junan 2024 Interim Dividend) over the highest closing price of Guotai Junan A Shares during the Placement Review Period.

Subsequent to the Last Trading Date and after the publication of the Joint Announcement on 9 October 2024, the closing price of Guotai Junan A Shares surged to RMB19.64 per share on the Latest Practicable Date. The Issue Price represents a discount of approximately 18.69% to such closing price. We note that this trend is in line with the H share movement as discussed in the section headed “5.3. Historical relative market price performance” above. Except for (i) the publication of Joint Announcement; and (ii) the recent rise in the PRC stock market driven by favourable policies introduced by the PRC government, we are not aware of any particular events that could have caused the significant increase in Guotai Junan Shares prices.

While the Guotai Junan A Shares and Guotai Junan H Shares trade in different stock markets at different prices, we have also made comparisons of their trading prices. We note that the Issue Price is also significantly higher than the historical market price of Guotai Junan H Shares throughout the Placement Review Period and up to the Latest Practicable Date. As at the Latest Practicable Date, the closing price of Guotai Junan H Shares was HK\$11.60 per share (equivalent to approximately RMB10.53 per share). The Issue Price represents a premium of approximately 51.66% to such closing price.

In summary, having considered that (i) the Issue Price is above the closing prices of Guotai Junan A Shares during the Placement Review Period, while subsequent to the Last Trading Date and after the publication of the Joint Announcement on 9 October 2024, the closing price of Guotai Junan A Shares surged to RMB19.64 per share on the Latest Practicable Date which is above the Issue Price; and (ii) the Issue Price is significantly higher than the closing prices of Guotai Junan H Shares throughout the Placement Review Period and up to the Latest Practicable Date, from the perspective of the historical price performance of Guotai Junan A Shares as well as the Guotai Junan H Shares which the Disinterested Haitong H Shareholders will be exchanging into, we are of the view that the Issue Price is fair and reasonable.

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Comparable transactions analysis

We have identified transactions involving issuance of new A shares by PRC listed companies for the purpose of ancillary fund raising for acquisition or restructuring which (i) have a price determination date within the period from 10 May 2024 to 9 October 2024 (being the six-month period preceding the date of the Joint Announcement which reflects the recent sentiment and prevailing practice in the PRC); and (ii) have been completed as at the Latest Practicable Date (the “**Comparable Transaction(s)**”). We found an exhaustive list of five Comparable Transactions based on the above criteria, as set out in the table below.

Disinterested Haitong H Shareholders should note that although the businesses, operations, market capitalisation and prospects of Guotai Junan Securities as well as the Post-Merger Company are not the same as the subject companies of the Comparable Transactions, the Comparable Transactions can provide a fair and representative reference as to how the recent market generally perceives ancillary fund raisings for acquisition or restructuring, including their prevailing terms.

Company name (stock code)	Price determination date	Premium/(discount) of the issue price over/to the closing price per share on last trading day immediately prior to the price determination date	Premium/(discount) of the issue price over/to the average closing price per share for the last 20 consecutive trading days immediately prior to the price determination date	Premium/(discount) of the issue price over/to the average closing price per share for the last 60 consecutive trading days immediately prior to the price determination date
CCCC Design & Consulting Group Co., Ltd. (600720.SH)	20 September 2024	(14.20%)	(15.03%)	(19.70%)
Rigol Technologies Co., Ltd. (688337.SH)	19 September 2024	(7.97%)	(8.74%)	(8.85%)
Avicopter Plc (600038.SH)	09 July 2024	(13.71%)	(16.45%)	(19.33%) <i>(Note)</i>
Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. (600663.SH)	14 June 2024	(17.77%)	(19.80%) <i>(Note)</i>	(13.37%) <i>(Note)</i>

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Company name (stock code)	Price determination date	Premium/(discount) of the issue price over/to the closing price per share on last trading day immediately prior to the price determination date	Premium/(discount) of the issue price over/to the average closing price per share for the last 20 consecutive trading days immediately prior to the price determination date	Premium/(discount) of the issue price over/to the average closing price per share for the last 60 consecutive trading days immediately prior to the price determination date
Sichuan New Energy Power Company Limited (000155.SZ)	28 May 2024	(10.72%)	(11.78%)	(8.36%)
	High end	(7.97%)	(8.74%)	(8.36%)
	Low end	(17.77%)	(19.80%)	(19.70%)
	Average	(12.87%)	(14.36%)	(13.92%)
Guotai Junan Securities	10 October 2024	10.37% (Note)	12.78% (Note)	15.47% (Note)

Source: SSE and Shenzhen Stock Exchange

Note: Relevant interim/final dividend was deducted from the calculation of average trading price.

As shown in the table above, the respective issue prices of the Comparable Transactions represent discounts to (i) the closing price per share on last trading day immediately prior to the respective price determination dates; and (ii) the average closing price per share for the last 20 and 60 consecutive trading days immediately prior to the respective price determination dates. In comparison, the Issue Price represents premiums to the closing price and average closing prices of Guotai Junan A Shares as summarised in the table above.

As such, we are of the view that the Issue Price is fair and reasonable from the perspective of comparable transaction analysis.

Lock-up

We note that the Placement A Shares subscribed by the Subscriber under the Proposed Placement shall be subject to a lock-up period of 60 months from the date of issue of such Placement A Shares, unless transfers are permitted by Applicable Laws. Since the lock-up arrangement further aligns the interests of the Subscriber and Shanghai International with those of Disinterested Haitong H Shareholders during the lock-up period following the completion of the Proposed Merger, we are of the view that it is fair and reasonable, and in the interest of the Disinterested Haitong H Shareholders.

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Summary

Based on the above analysis, we are of the view that the terms of the Proposed Placement is fair and reasonable so far as the Disinterested Haitong H Shareholders are concerned.

9.2. Rationale of the Proposed Placement

According to the paragraph headed “Proposed Placement” under the section headed “10. Reasons and benefits of the Proposed Merger and the Proposed Placement” in the “Terms and information of the Proposed Merger and the Proposed Placement” contained in the Joint Circular, the Proposed Placement aims to strengthen the Post-Merger Company’s capital base, thereby reinforcing its ability to mitigate risks and improve its competitive position to capitalise on opportunities in the capital market.

We note that this is in line with the background and purpose of the Proposed Merger to create a financially stronger financial institution with comprehensive scale and services as discussed in the section headed “4. Rationale of the Proposed Merger” above. As the net proceeds from the Proposed Placement will be applied to the development of international business, trading and investment business, digitalisation and replenishing working capital of the Post-Merger Company, we concur that the Proposed Placement will be advantageous in positioning the Post-Merger Company to better seize market opportunities and bolster its leading position. In addition, based on our independent research conducted on Comparable Transactions under section 9.1 above, we note that issuing new shares to raise ancillary fund in relation to acquisition or restructuring exercise is not uncommon in the A share market.

Further, we note that the Subscriber is a wholly-owned subsidiary of Shanghai International, the controlling shareholder of Guotai Junan Securities. We believe that the Proposed Placement can also demonstrate the firm confidence from the existing controlling shareholder in the future development of the Post-Merger Company, which is beneficial in boosting market confidence in the Post-Merger Company and could send positive signals to investors and potential investors alike.

9.3. Shareholding dilution effect

As illustrated in the paragraph headed “Shareholding structure chart before and after the Proposed Merger and Proposed Placement” under the section headed “1. Background information of the Proposed Merger” in the “Terms and information of the Proposed Merger and the Proposed Placement” contained in the Joint Circular, the shareholding interests of Shareholders in the Post-Merger Company, other than Shanghai International, will be slightly diluted from approximately 82.53% (immediately after the Closing Date) to approximately 79.60% (immediately after the Proposed Placement, which will be undertaken concurrently with the Share Exchange).

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Considering in conjunction with the rationale of the Proposed Placement as set out in section 9.2 above, as well as our analysis on the terms of the Proposed Placement as set out in section 9.1 above, we are of the view that the said nominal level of dilution to the shareholding interests of Shareholders in the Post-Merger Company (other than Shanghai International) as a result of the Proposed Placement to be acceptable.

9.4. Section conclusion

In conclusion, having considered the factors discussed above, we are of the view that the Proposed Placement is fair and reasonable so far as the Disinterested Haitong H Shareholders are concerned.

RECOMMENDATIONS

In summary, we have considered, in particular, the below factors and reasons in reaching our conclusion and recommendations regarding the Proposed Merger and the Proposed Placement:

- (a) the Proposed Merger represents a strategic move to combine Haitong Securities and Guotai Junan Securities, which respectively are top players in the securities industry and to develop a world-class investment bank; by retaining equity exposure in the Post-Merger Company, Disinterested Haitong H Shareholders can benefit from the growth potential of a more diversified business portfolio with stronger asset backing than what they currently hold;
- (b) from a market value comparison perspective, the Proposed Merger Consideration is above the closing prices of Haitong H Shares throughout the Pre-Announcement Period, represents a premium of approximately 35.1% over the closing price of Haitong H Shares as quoted on the Hong Kong Stock Exchange on the Last Trading Date (after deducting the Haitong 2024 Interim Dividend), and continued to represent a premium of approximately 3.3% as at the Latest Practicable Date; meanwhile, the price trends of Haitong H Shares and Guotai Junan H Shares were generally aligned during the Review Period, indicating that our market value comparison analysis remained valid up to the Latest Practicable Date;
- (c) from an underlying asset value comparison perspective, the Proposed Merger Consideration represents a slight discount of approximately 5.1% to the underlying asset value of each Haitong H Share; from a profitability comparison perspective, the profit attributable to owners under the Proposed Merger Consideration represents substantial premium of over six times to the profit attributable to owners of each Haitong H Share. Overall, the discount in terms of underlying asset value is to be weighed against the substantial premium in terms of profit attributable to owners and this renders the Exchange Ratio of Proposed Merger from this perspective fair and reasonable;

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- (d) whilst the overall trading liquidity of Haitong H Shares appears to be higher than that of Guotai Junan H Shares, the levels of share trading activity were generally in line. Additionally, subsequent to the Proposed Merger, the asset and operational scale as well as the market capitalisation of the Post-Merger Company will be significantly larger. The public float (in terms of size) of the Post-Merger Company will also be larger and consisting of shareholder bases of both Haitong Securities and Guotai Junan Securities. These factors will likely attract further institutional investors following and with enhanced trading liquidity. Disinterested Haitong H Shareholders can therefore expect improved liquidity by holding Guotai Junan H Shares compared to holding Haitong H Shares;
- (e) in terms of comparable analysis based on the commonly adopted and practicably available references, (i) from P/B Ratio perspective, which is a commonly used valuation yardstick for financial institutions, the implied P/B Ratio of Haitong Securities (based on the Proposed Merger Consideration calculated based on the respective closing prices of Guotai Junan A Shares and Guotai Junan H Shares as at the Last Trading Date and the Latest Practicable Date) is within the respective P/B Ratio ranges of the Comparable Companies, despite below the mean and median; and (ii) for completeness of analysis, we have also considered P/E Ratio, where the implied P/E Ratio of Haitong Securities' is higher than those of the Comparable Companies;
- (f) in respect to the Proposed Placement, the Issue Price is above the closing prices of Guotai Junan A Shares throughout the Placement Review Period;
- (g) in terms of comparable transaction analysis, the respective issue prices of the Comparable Transactions represent discounts to (i) the closing price per share on last trading day immediately prior to the respective price determination dates; and (ii) the average closing price per share for the last 20 and 60 consecutive trading days immediately prior to the respective price determination dates. In comparison, the Issue Price represents premiums to the closing price and the respective average closing prices of Guotai Junan A Shares;
- (h) the Proposed Placement is in line with the background and purpose of the Proposed Merger, and enabling the Post-Merger Company to better seize market opportunities and bolster its leading position; and
- (i) the terms of the BOCI Asia Haitong Put Option Arrangement, which is considered as the Special Deal, are fair and reasonable.

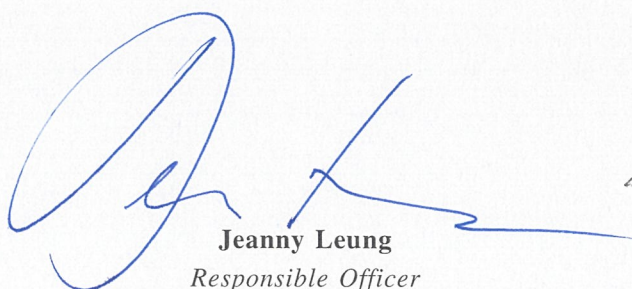
In light of the above, we (i) are of the opinion that the Proposed Merger (including the Special Deal) and the Proposed Placement are fair and reasonable; and (ii) recommend the Haitong IBC to recommend the Independent Haitong Shareholders and the Disinterested Haitong H Shareholders to vote in favour of the Proposed Merger (including the Special Deal) and the Proposed Placement at the Haitong EGM and the Haitong H Shareholders' Class Meeting.

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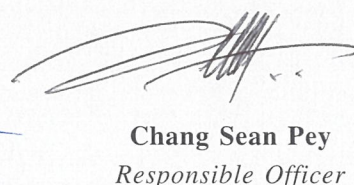
As different Independent Haitong Shareholders and Disinterested Haitong H Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Independent Haitong Shareholders and Disinterested Haitong H Shareholders who may require advice in relation to any aspect of the Circular, or as to the action(s) to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Independent Haitong Shareholders and Disinterested Haitong H Shareholders are reminded that they should make their decisions to dispose of or retain their investments, having regard to their own circumstances and investment objectives and are reminded to closely monitor the market price and liquidity of Haitong H Share and Guotai Junan H Share during the offer period, and they may consider selling their Haitong H Share in the open market, where possible, if the net proceeds (after deducting all transaction costs) exceed the market value of the Proposed Merger Consideration.

Yours faithfully,
For and behalf of
Altus Capital Limited



Jeanny Leung
Responsible Officer



Chang Sean Pey
Responsible Officer

Ms. Jeanny Leung (“Ms. Leung”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.

Mr. Chang Sean Pey (“Mr. Chang”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.