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**TAIFOOK SECURITIES GROUP LIMITED**

**大福證券集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 665)**

**CONTINUING CONNECTED TRANSACTIONS**

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



**SUMMARY**

On 2 September 2010, the Company entered into the Master Services Agreement with HTSH pursuant to which the Company and HTSH has each agreed to, or to procure member(s) of the HTSH Group (to the extent practicable) or (as the case may be) member(s) of the Group (to the extent practicable), to provide the Services to member(s) of the Group or (as the case may be) member(s) of the HTSH Group subject to the terms contained in the Master Services Agreement.

HTHK, a controlling shareholder of the Company, is a wholly-owned subsidiary of HTSH. As the holding company of HTHK, HTSH is therefore a connected person of the Company. The entering into of the Master Services Agreement by the Company with HTSH and the provision of the Services contemplated thereunder therefore constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest of the relevant Percentage Ratios in respect of the Annual Caps of the Continuing Connected Transactions will, on an annual basis, be more than 5% and/or the annual consideration be more than HK\$10,000,000, the Company has to comply with the announcement, reporting and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

A circular containing the particulars of the Master Services Agreement together with a letter from the Independent Board Committee, a letter from the Independent Financial Adviser and a notice of the SGM is expected to be despatched to the Shareholders on or about 21 September 2010.

## CONTINUING CONNECTED TRANSACTIONS UNDER THE MASTER SERVICES AGREEMENT

### Date

2 September 2010

### Parties

- (1) HTSH
- (2) the Company

### Duration

The Master Services Agreement is for an initial term commencing from the date of signing the Master Services Agreement to 31 December 2012. Subject to re-compliance with the reporting, announcement and/or independent shareholders' requirements under the applicable requirements of the Listing Rules at the relevant time, the Master Services Agreement may be renewed for a further term of three years upon expiration of its initial term.

### Provision of Services

Under the Master Services Agreement, HTSH and the Company has each agreed to, or to procure member(s) of the HTSH Group (to the extent practicable) or (as the case may be) member(s) of the Group (to the extent practicable) to provide the Services to member(s) of the Group or (as the case may be) member(s) of the HTSH Group during the term of the Master Services Agreement.

The Services cover the services which are to arise from the following categories of transactions, and such other types of ancillary services as the Company and HTSH may agree upon from time to time in writing:

Category	Services
Brokerage Transactions	<ul style="list-style-type: none"><li>- Provision by member(s) of the HTSH Group to member(s) of the Group of B shares brokerage services and its ancillary services for (i) clients of the Group; (ii) funds established and/or managed by member(s) of the Group; and (iii) proprietary trading of member(s) of the Group</li><li>- Provision by member(s) of the HTSH Group to member(s) of the Group of A shares brokerage services and its ancillary services for QFII funds established and/or managed by member(s) of the Group</li><li>- Provision by member(s) of the Group to member(s) of the HTSH Group of brokerage services and its ancillary services for trading Hong Kong and/or overseas securities or investment products for (i) QDII funds established and/or managed by member(s) of the HTSH Group; and (ii) clients of the HTSH Group for dealing in Hong Kong securities and/or overseas securities or investment products</li></ul>
Research Transactions	<ul style="list-style-type: none"><li>- Provision by member(s) of the HTSH Group to member(s) of the Group, or vice versa, of various research materials (including but not limited to Hong Kong, overseas and PRC listed company research reports, industry sector reports, fixed income research reports, derivative product research reports,</li></ul>

	investment strategy reports as well as macroeconomic analysis reports)
Investment Management and Advisory Services Transactions	<ul style="list-style-type: none"> <li>- Provision by members of the HTSH Group to member(s) of the Group of investment management and/or advisory services including but not limited to financial analysis, asset allocation, stock selection, marketing plan implementation, ongoing monitoring of investments and its ancillary advisory and consultancy services for QFII funds established and/or managed by member(s) of the Group</li> <li>- Provision by member(s) of the Group to member(s) of the HTSH Group of investment management and/or advisory services including but not limited to financial analysis, asset allocation, stock selection, marketing plan implementation, ongoing monitoring of investments and its ancillary advisory and consultancy services for QDII funds established and/or managed by member(s) of the HTSH Group</li> </ul>
Seed Injection or Financing Transactions	- Provision by member(s) of the HTSH Group of seed capital for subscription of fund(s) established and/or managed or to be established and/or managed by member(s) of the Group
Corporate Finance Transactions	- Provision by member(s) of the Group to member(s) of the HTSH Group of financial advisory services (including but not limited to giving advice concerning compliance of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, the offering of securities and corporate restructuring, advising on dealing in securities and leveraged foreign exchange trading, including but not limited to acting as placing agent, underwriter or sub-underwriter)
Information Technology Support Transactions	- Provision by member(s) of the Group to member(s) of the HTSH Group of information technology support and its ancillary advisory services

The provision of any of the above categories of Services is subject to the qualification that it is not contrary to any applicable laws, regulations or administrative directives promulgated by competent authorities to which the relevant member(s) of the HTSH Group or (as the case may be) the Group is or are subject.

### **Pricing basis**

As a general principle:

- (i) the prices and terms with respect to the Services provided by member(s) of the HTSH Group to member(s) of the Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and at prices and terms no less favourable to the Group than prices and terms available to or from independent third parties to the Group;
- (ii) the prices and terms with respect to the Services provided by member(s) of the Group to member(s) of the HTSH Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and at prices and terms no more favourable to the HTSH Group than prices and terms available to or from independent third parties to the Group.

## **Operational Agreements**

Pursuant to the Master Services Agreement, member(s) of the Group and member(s) of the HTSH Group shall, from time to time during the term of the Master Services Agreement, enter into separate Operational Agreements in respect of the provision of the Services provided that such separate agreements shall always be subject to the Master Services Agreement. In this connection, the Company and HTSH have agreed that:

- (a) as a general principle:
  - (i) the prices and terms of the Operational Agreements with respect to the Services provided by member(s) of the HTSH Group to member(s) of the Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and at prices and terms no less favourable to the Group than prices and terms available to or from independent third parties to the Group;
  - (ii) the prices and terms of the Operational Agreements with respect to the Services provided by member(s) of the Group to member(s) of the HTSH Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and at prices and terms no more favourable to the HTSH Group than prices and terms available to or from independent third parties to the Group;
- (b) subject to the general principle in (a) above, the prices and terms at which the Research Transactions are to be provided shall be determined in the ordinary course of business on a cost-plus basis on terms (including prices) no less favourable than those charged to and contracted with other independent third party customers of the Group. The cost element includes all direct costs incurred, such as staff costs, equipment costs or other indirect or common costs allocated on an equitable basis.
- (c) the term of each Operational Agreement will be fixed and in any event will not exceed the initial term of the Master Services Agreement.

## **Maximum Aggregate Annual Values**

Based on the estimated volume of transactions arising from the anticipated provision of the Services between member(s) of the Group and member(s) of the HTSH Group under the Master Services Agreement, the Board considers it meaningful to make the following four segmental divisions for determining the annual caps (the "**Annual Caps**") in respect of Continuing Connected Transactions for the four months ending 31 December 2010 and each of the two financial years ending 31 December 2011 and 2012 respectively as follows:

Segmental divisions	Annual Caps		
	For the four months ending 31 December 2010 (HK\$ million)	For the financial year ending 31 December 2011 (HK\$ million)	For the financial year ending 31 December 2012 (HK\$ million)
<b>(A) Annual Caps in respect of income attributable to the Group arising from:</b>			
(i) <i>Brokerage Transactions from services provided to member(s) of the HTSH Group</i>	2.5	10.0	13.0
(ii) <i>Research Transactions from services provided to member(s) of the HTSH Group</i>	1.0	3.5	4.0
(iii) <i>Investment Management and Advisory Services Transactions from services provided to member(s) of the HTSH Group</i>	8.9	29.8	33.2
(iv) <i>Corporate Finance Transactions from services provided to member(s) of the HTSH Group (excluding underwriting and sub-underwriting commitments which are separately determined under (D))</i>	3.0	85.8	116.8
(v) <i>Information Technology Support Transactions from services provided to member(s) of the HTSH Group</i>	1.0	5.0	7.0
	16.4	134.1	174.0
<b>(B) Annual Caps in respect of expenses incurred to the Group arising from:</b>			
(i) <i>Brokerage Transactions from services provided by member(s) of the HTSH Group</i>	2.0	8.0	10.0
(ii) <i>Research Transactions from services provided by member(s) of the HTSH Group</i>	0.5	1.8	2.1
(iii) <i>Investment Management and Advisory Services Transactions from services provided by member(s) of the HTSH Group</i>	0.3	1.2	1.6
	2.8	11.0	13.7

<b>(C) Annual Caps relating to Seed Injection or Financing Transactions by member(s) of the HTSH Group</b>	279.4	922.1	1,014.4
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<b>(D) Annual Caps in respect of Corporate Finance Transactions attributable to underwriting and sub-underwriting commitments to member(s) of the HTSH Group</b>	0	2,750.0	3,750.0
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The Annual Caps have been determined by reference to (a) the projected annual or annualised amounts or payments in respect of the Services to be provided by member(s) of the Group to member(s) of the HTSH Group or vice versa; and (b) a cushion has been added to provide flexibility for possible changes in the level of Services associated with the business growth of the HTSH Group and/or the Group and estimated future demand, inflation factor and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the HTSH Group and the Group during the term of the Master Services Agreement.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) are of the views that the proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### **Termination**

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

#### **Reasons for, and benefits of, the Continuing Connected Transactions**

The transactions contemplated under the Master Services Agreement are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group and the HTSH Group.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) consider that the terms of the Master Services Agreement are fair and reasonable. The securing of a long-term and reputable business associate with profound experience in the financial and securities industry in the PRC is beneficial to the Group. The increased co-operation and the combination of the strength of the Group's strong network and reputation to provide diversified financial services and comprehensive product offering and expertise in Hong Kong with the strength of the HTSH Group in its securities, brokerage and asset management business in the PRC would allow the realisation of substantial synergies in terms of, among others, connectivity to the PRC market (for the Company) and to the Hong Kong market (for HTSH), convenience, support and marketing. The increased co-operation would be expected to bring considerable and stable contribution to the Group's revenue and profitability in the long run. Accordingly, the entering into of the Master Services Agreement is in the interests of the Company and the Shareholders as a whole.

## **Opinions of the Directors**

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) consider that the terms of the Master Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and have been negotiated on an arm's length basis in the usual and ordinary course of business, on normal commercial terms and on terms no more favourable to the HTSH Group than those which the Group would offer to independent third parties to the Company.

## **Connection between the parties to the Master Services Agreement**

HTHK, a controlling shareholder of the Company, is a wholly-owned subsidiary of HTSH. As the holding company of HTHK, HTSH is therefore a connected person of the Company. The entering into of the Master Services Agreement by the Company with HTSH and the provision of the Services contemplated thereunder therefore constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

## **Compliance with the Listing Rules**

As the highest of the relevant Percentage Ratios in respect of the Annual Caps of the Continuing Connected Transactions will, on an annual basis, be more than 5% and/or the annual consideration be more than HK\$10,000,000, the Company has to comply with the announcement, reporting and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Company will re-comply with the continuing obligations under Rules 14A.37 to 41 of the Listing Rules and will re-comply with the relevant Listing Rules after 31 December 2012 or if the Annual Caps are exceeded or when there is a material change to the terms of the Master Services Agreement.

## **INFORMATION ON THE GROUP**

The Company is an investment holding company. The principal activities of the Group comprise securities, futures and options contracts broking and trading, the provision of margin and other financing, the provision of corporate advisory, placing and underwriting services, bullion contracts dealing and trading, leveraged foreign exchange trading, the provision of nominee and custodian services, the provision of fund management, the provision of financial planning and advisory services and proprietary securities trading.

## **INFORMATION ON THE HTSH GROUP**

HTSH is a joint stock company incorporated in the PRC which is listed on SSE (stock code: 600837). The HTSH Group is principally engaged in securities broking and trading, securities investment advisory, securities underwriting and sponsorship, investment banking and financial advisory, direct investment, asset management, and securities margin financing and securities lending activities in the PRC.

## **GENERAL**

An Independent Board Committee (comprising all the independent non-executive Directors) has been appointed to advise and to provide recommendation to the Independent Shareholders concerning the Continuing Connected Transactions.

Somerley Limited has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions, which are subject to the Independent Shareholders' approval.

A circular containing the particulars of the Master Services Agreement together with a letter from the Independent Board Committee, a letter from the Independent Financial Adviser and a notice of the SGM is expected to be despatched to the Shareholders on or about 21 September 2010.

## DEFINITIONS

Unless the context otherwise requires, the following expressions have the meanings set out in this announcement:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Taifook Securities Group Limited (stock code: 665), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Master Services Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HTHK”	Hai Tong (HK) Financial Holdings Limited, a company incorporated in Hong Kong, which is a wholly-owned subsidiary of HTSH
“HTSH”	Haitong Securities Company Limited, a joint stock company incorporated in the PRC whose shares of which are listed on SSE (stock code: 600837) and the holding company of HTHK
“HTSH Group”	HTSH, its subsidiaries and/or any company in the equity capital of which HTSH and/or any of its subsidiaries taken together are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other threshold as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the voting power at general meetings from time to time, but excluding member(s) of the Group
“Independent Board Committee”	an independent committee of the Board (which comprises Mr. Man Mo Leung, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, Bill, being all the independent non-executive Directors) established to advise the Independent Shareholders with regard to the Continuing Connected Transactions
“Independent Financial Adviser”	Somerley Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Continuing Connected Transactions

“Independent Shareholder(s)”	the Shareholders, other than HTSH and its associates, who do not have any material interest in the Continuing Connected Transactions
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Services Agreement”	the master services agreement in relation to the provision of the Services entered into between the Company and HTSH on 2 September 2010
“Operational Agreements”	the individual agreements in respect of the provision of any of the Services which may from time to time be entered into between a member of the HTSH Group and a member of the Group pursuant to the Master Services Agreement, and “Operational Agreement” means any of them
“Percentage Ratios”	the applicable percentage ratios (other than the profits ratio and the equity capital ratio) under Rule 14.07 of the Listing Rules
“PRC”	The People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“QDII”	the qualified domestic institutional investors scheme of the PRC which is an investment scheme to allow PRC domestic investors to invest in foreign securities markets via certain fund management institutions, insurance companies, securities companies and other assets management institutions which have been approved by China Securities Regulatory Commission
“QFII”	the qualified foreign institutional investors program of the PRC which is a program to allow licensed foreign investors to buy and sell yuan-denominated A shares in China’s mainland stock exchanges
“Services”	the services which are to arise from six principal categories of transactions (namely brokerage transactions, research transactions, investment management and advisory services transactions, seed injection or financing transactions, corporate finance transactions and information technology support transactions) and such other types of ancillary services as the parties to the Master Services Agreement may agree upon from time to time in writing and to be provided (to the extent practicable) by member(s) of the HTSH Group to member(s) of the Group (or vice versa), the initial scope of the Services is as described in this announcement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting to be convened and held by the Company to consider and, if thought fit, approve (among other matters), the Continuing Connected Transactions (including the Annual Caps)

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“SSE”	the Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board  
**Wong Shiu Hoi, Peter**  
*Deputy Chairman and Managing Director*

Hong Kong, 2 September 2010

*As at the date of this announcement, the Board of the Company comprises (a) 6 executive Directors, namely Mr. Wong Shiu Hoi, Peter (Deputy Chairman and Managing Director), Mr. Li Jianguo (Deputy Chairman), Mr. Lin Yong (Joint Managing Director), Mr. Lee Yiu Wing, William, Mr. Chan Chi On, Derek and Mr. Poon Mo Yiu, Patrick; (b) 5 non-executive Directors, namely Mr. Li Mingshan (Chairman), Mr. Ji Yuguang, Mr. Wu Bin, Mr. Chen Chunqian and Mr. Cheng Chi Ming, Brian; and (c) 3 independent non-executive Directors, namely Mr. Man Mo Leung, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, Bill.*

*\* For identification purposes only*