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

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**iOne Holdings Limited**  
**卓智控股有限公司\***  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 982)

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
THE ENTIRE ISSUED SHARE CAPITAL OF  
HUAJIN FINANCIAL (INTERNATIONAL) HOLDINGS LIMITED  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

Joint financial advisers to iOne Holdings Limited



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



Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 20 of this circular. A letter from Somerley Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 38 of this circular.

A notice convening the SGM to be held at 2:30 p.m. on Tuesday, 23 May 2017 at Unit 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you intend to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be), if you so wish.

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## DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Shares by the Company from the Vendor pursuant to the terms and conditions of the Agreement
“Agreement”	the conditional sale and purchase agreement dated 29 March 2017 entered into between the Company and the Vendor in relation to the Acquisition
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday and Sunday) on which commercial banks in Hong Kong and the PRC are open for general business
“Company”	iOne Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 982)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the Acquisition
“Group”	the Company and its subsidiaries
“Guangdong SASAC”	廣東省人民政府國有資產監督管理委員會 (State-Owned Assets Supervision and Administration Commission of the Guangdong Provincial Government*)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huajin Investment”	Huajin Investment Company Limited, a company incorporated in Samoa with limited liability, the controlling Shareholder and an indirect wholly-owned subsidiary of Zhuhai Huafa

## DEFINITIONS

“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi, established to give recommendation to the Independent Shareholders in respect of the Acquisition
“Independent Shareholders”	Shareholders other than Huajin Investment and its associates
“Latest Practicable Date”	26 April 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2017
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Sale Shares”	76,467,600 shares in the Target, representing the entire issued share capital of the Target
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.00025 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)

## DEFINITIONS

“Somerley Capital”	Somerley Capital Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Huajin Financial (International) Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Vendor as at the date of Agreement
“Target Group”	the Target and its subsidiaries
“Vendor”	珠海金融投資控股集團有限公司 (Zhuhai Financial Investment Holdings Group Co., Ltd.*), a company established in the PRC with limited liability and a subsidiary of Zhuhai Huafa
“Zhuhai Exchange”	珠海產權交易中心有限責任公司 (Zhuhai Asset and Equity Exchange Centre Limited*), a company established in the PRC with limited liability and a subsidiary of the Vendor
“Zhuhai Huafa”	Zhuhai Huafa Group Co., Ltd., a company established in the PRC with limited liability and the ultimate controlling Shareholder
“Zhuhai SASAC”	珠海市人民政府國有資產監督管理委員會 (State-Owned Assets Supervision and Administration Commission of the Zhuhai Municipal Government*)
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*The English translation of Chinese names or words marked with \* in this circular, where indicated, is included for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

LETTER FROM THE BOARD

**iOne Holdings Limited**  
**卓智控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 982)**

*Executive Directors:*

Mr. Li Guangning (*Chairman*)  
Mr. Xie Wei (*Chief Executive Officer*)  
Ms. Zhong Ming (*Chief Financial Officer*)

*Non-executive Director:*

Ms. Zhang Kuihong

*Independent Non-executive Directors:*

Dr. Chen Jieping  
Dr. Sun Mingchun  
Mr. Tse Yung Hoi

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head office and principal place of  
business in Hong Kong:*

Unit 3605, 36/F  
Cheung Kong Center  
2 Queen's Road Central  
Central, Hong Kong

28 April 2017

*To the Shareholders*

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
THE ENTIRE ISSUED SHARE CAPITAL OF  
HUAJIN FINANCIAL (INTERNATIONAL) HOLDINGS LIMITED**

**INTRODUCTION**

Reference is made to the announcements of the Company dated 21 March 2017 and 29 March 2017 in relation to the Acquisition.

On 21 March 2017, the Company submitted an application to participate in a tender organised by the Zhuhai Exchange for the acquisition of the entire issued share capital of the Target. The Company participated in the online bidding session held on 29 March 2017 and succeeded in the bidding at a final bid price equivalent to the floor bid price of HK\$76,467,600. Following the bidding and after trading hours of the Stock Exchange on 29 March 2017, the Company and the Vendor entered into the Agreement in relation to the Acquisition.

The Acquisition constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

\* *For identification purpose only*

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The Vendor and the Zhuhai Exchange are connected persons of the Company under Chapter 14A of the Listing Rules by virtue of being subsidiaries of Zhuhai Huafa, the ultimate controlling Shareholder. Accordingly, the Acquisition (including the service fee payment to the Zhuhai Exchange) constitutes a connected transaction for the Company and is subject to, among other things, the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) details of the Agreement; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition; (iii) the letter of advice from Somerley Capital to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; (iv) the valuation report of the Target Group; and (v) the notice of SGM.

### THE TENDER

In accordance with 企業國有資產交易監督管理辦法 (the Measures on the Supervision and Management of the Transactions of State-owned Assets of the Enterprises\*) (Order No. 32 of the SASAC and the Ministry of Finance) jointly issued by the SASAC and the Ministry of Finance of the PRC, relevant approval by the supervisory bodies for state-owned assets is required for any transfer of assets by a state-owned enterprise and such transfer is required to be conducted publicly through an equity exchange. The equity transaction of the Vendor in relation to its proposed disposal of the Target by way of tender was approved by the Zhuhai SASAC under 關於華金金融(國際)控股有限公司100%股權公開掛牌轉讓實施方案的備案意見 (the Opinion in relation to the Implementation Proposal of the Transfer of the 100% Issued Share Capital of Huajin Financial (International) Holdings Limited by Way of Tender\*) (珠國資2017 (47)號, Zhu Guozi 2017 (No. 47)\*) to be conducted in an open, fair and just manner. As there is no similar equity exchange in Hong Kong, with the consent of Zhuhai SASAC, the tender was conducted through the Zhuhai Exchange. The Zhuhai Exchange is one of the few recognised equity exchanges in Guangdong Province qualified for conducting transactions of state-owned assets pursuant to 關於確定從事我省市屬企業國有產權轉讓交易機構的通知 (the Confirmation Notice on the Exchanges participating in State-owned Equity Transfer in Guangdong Province\*) (粵國資函 [2005] 41號, Yue Guozi Han [2005] No. 41\*) issued by Guangdong SASAC and has been involved in a number of state-owned asset transactions in Shenzhen, Zhuhai, Zhongshan and Yangjiang in recent years.

Having taken into account that the tender would be organised at the Zhuhai Exchange while the Target was established in Hong Kong, a tender notice for the Sale Shares has been published on the website of the Zhuhai Exchange and on 大公報 (Takungpao\*) in Hong Kong respectively on 1 March 2017. According to the tender notice, the tender was opened for application from 1 March 2017 to 28 March 2017 and the floor bid price was HK\$76,467,600. Any Hong Kong-incorporated company with audited net assets value in 2015 of not less than HK\$100 million which is engaged in the regulated activities under the SFO directly or indirectly through its subsidiary(ies) is eligible to participate in the tender on its own. Based on the tender procedures, qualified bidders would be notified by the Zhuhai Exchange on 29 March 2017 to participate in an online bidding session to be held on the same day. The Company was the only applicant and qualified bidder participating in the bidding session, in which it has succeeded in the bidding at the floor bid price of HK\$76,467,600.

## LETTER FROM THE BOARD

### THE AGREEMENT

#### Date

29 March 2017

#### Parties

- (i) The Company, being the purchaser; and
- (ii) 珠海金融投資控股集團有限公司 (Zhuhai Financial Investment Holdings Group Co., Ltd\*), being the Vendor.

The Vendor is a state-owned financial conglomerate in the PRC headquartered in Hengqin New Area of Zhuhai and is under the supervision of the Zhuhai SASAC. Its principal businesses include (i) securities and futures brokerage; (ii) financial leasing and insurance; (iii) retail and commercial banking; and (iv) exchange platforms (including but not limited to the Zhuhai Exchange, Guangdong Financial Assets Exchange and Hengqin International Intellectual Property Exchange).

The Vendor is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being a subsidiary of Zhuhai Huafa, the ultimate controlling Shareholder.

#### Assets to be acquired

Pursuant to the Agreement, the Company conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares. The Sale Shares, representing the entire issued share capital of the Target, will be sold free from encumbrances and together with all rights attaching thereto from Completion, including any dividend or other distribution to be declared, made or paid upon or after Completion. The Target Group is principally engaged in financial services business, details of which are set out in the section headed "Information on the Target Group" below.

#### Consideration

The consideration for the Sale Shares (i.e. the final bid price submitted by the Company at the online bidding session) is HK\$76,467,600 and shall be payable by the Company to the Vendor in cash at Completion.

In accordance with the tender procedures, the Company shall pay a service fee in the amount of approximately RMB1.32 million (equivalent to approximately HK\$1.49 million based on the exchange rate of RMB1=HK\$1.127) to the Zhuhai Exchange upon Completion. The Zhuhai Exchange is a wholly-owned subsidiary of the Vendor and hence a connected person of the Company under Chapter 14A of the Listing Rules.

The Company intends to finance the consideration for the Sale Shares and the service fee payment by internal resources of the Group, shareholder's loan, bank borrowings or a combination of the above.

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### Conditions precedent

Completion is conditional upon the fulfillment or waiver (as the case may be) of the following conditions on or before 30 September 2017 (being the Long Stop Date):

- (a) the Company having obtained all necessary consents, approvals and authorisations from relevant government authorities or other third parties in Hong Kong or other jurisdictions in respect of the execution and performance of the Agreement (including but not limited to the obtaining of Independent Shareholders' approval at the SGM by the Company pursuant to the Listing Rules);
- (b) the Target Group having obtained all necessary consents and approvals from third parties in respect of the change of shareholder of the Target such that the Target Group shall maintain all its existing material contracts and other rights after Completion (if any);
- (c) the Company, the Vendor and the Target Group having obtained all their respective necessary approvals, authorisations, consents, filings and registrations from the government authorities, regulatory bodies, exchanges, courts, other judiciaries or any other institutions with supervisory functions in respect of the Agreement and the transactions contemplated thereunder and having completed all necessary notification and filing procedures (including but not limited to the Company having obtained the SFC's approval in respect of the Acquisition and becoming the substantial shareholder of the respective members of the Target Group, namely Huajin Securities (International) Limited, Huajin Futures (International) Limited and Huajin Research (International) Limited);
- (d) the existing directors and responsible officers of the Target Group having remained in their current positions at Completion and having continually performed their duties, responsibilities and obligations as the Target Group's directors and responsible officers for the regulated activities under the SFO or the officers of the money lending business (as the case maybe) during their tenure respectively;
- (e) the Company having completed the legal due diligence review of the Target Group and being satisfied with the results thereof in all respects; and
- (f) the representations and warranties provided by the Vendor under the Agreement remaining true, accurate and not misleading in all respects at Completion.

Save for conditions (e) and (f) above which may be waived in writing at the absolute discretion of the Company, none of the conditions set out above can be waived by any party to the Agreement.

## LETTER FROM THE BOARD

As at the Latest Practicable Date, none of the above conditions had been fulfilled or waived (as the case may be) and to the best knowledge and belief of the Directors, no necessary consents or approvals referred to in condition (b) above have been identified so far.

If any of the above conditions is not fulfilled or waived (as the case may be) on the Long Stop Date, the Company has the right to do the following at its discretion:

- (i) waive the conditions that have not been fulfilled (except for conditions (a), (b), (c) and (d) above which are not waivable);
- (ii) extend the Long Stop Date to another date; or
- (iii) terminate the Agreement, where the rights and obligations of the parties to the Agreement shall cease and determine save for any antecedent breaches of the terms thereof and the announcement and disclosure restrictions under the Agreement.

### Completion

Completion shall take place on the fifth Business Day after all the conditions above have been fulfilled or waived (as the case may be) or such other date as the Company and the Vendor may agree.

Upon Completion, the Target will become a wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Company.

The Company has paid a deposit of HK\$7,700,000 (the “**Deposit**”, representing 10% of the floor bid price of HK\$76,467,600) to the Zhuhai Exchange before the participation in the online bidding session, and such Deposit shall be fully refunded to the Company upon the Company’s full settlement of the final bid price and service fee. Pursuant to the Agreement, the Vendor has undertaken to make all reasonable endeavours to procure the Zhuhai Exchange to fully refund the Deposit within 10 Business Days after Completion. In the event that the Company fails to proceed with the Acquisition (due to reasons including but not limited to the failure to obtain the Independent Shareholders’ approval at the SGM), the Zhuhai Exchange is entitled to forfeit the Deposit.

In accordance with 廣東省企業國有集體產權交易暫行規則 (the Interim Measures on the Transactions of State-owned Equity of the Enterprises in Guangdong Province\*) (粵國資產權 [2004] 99號, Yue Guozi Chanquan [2004] No. 99\*), parties interested in purchasing stated-owned or collective-owned assets are required to pay a deposit in the amount of 10% of the reference transaction price to the relevant authorised equity exchange before the end of the tender notice period. Pursuant to the 企業國有產權交易保證金操作細則 (Operation Guidelines on the Deposit for the State-owned Equity Transactions\*) of the Zhuhai Exchange, it also requires all interested bidders for any tender organised therein to pay a deposit representing 10% of the floor bid price to ensure that bidders to participate in the tender process in a strictly open, fair and

## LETTER FROM THE BOARD

just manner. In view of above, the Board considered that the Deposit paid by the Company to the Zhuhai Exchange is in compliance with the relevant requirements of Guangdong SASAC and the Zhuhai Exchange and is not intended to exert undue pressure to the independent Shareholders to vote for the Acquisition at the SGM.

### INFORMATION ON THE TARGET GROUP

#### Overview of principal business

The Target was established by the Vendor in Hong Kong in June 2013. Since its incorporation, the Vendor has contributed a total of HK\$76,467,600 to its share capital. The Target Group is principally engaged in the securities underwriting and consultancy, securities and futures brokerage and equity research businesses and holds the licences to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO. It also holds a money lender's licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

As advised by the Vendor, during the start-up stage of the Target Group, its revenue was mainly derived from the provision of consultancy services in relation to debt issuance to members of the Zhuhai Huafa group. With an aim to expanding its external customer base, enhancing its market share and developing itself into an integrated financial services group in Hong Kong, the Target Group applied for the necessary licenses to carry out regulated activities under the SFO since 2015 and rolled out securities and futures brokerage business as well as the equity research business in 2016. In late 2016, the Target Group recruited a team with substantial experience in the investment banking industry and has since then diversified into securities underwriting business and achieved positive progress. Going forward, the Target Group will continue to strengthen its securities underwriting business and further expand its brokerage and margin financing business. It plans to target at customers including listed companies and other quality enterprises and investors in Hong Kong and the PRC which are interested in participating in dealing in or listing of securities in Hong Kong.

#### Business development and future plan

Set out below are the recent development and future plan of the Target Group provided by the management of the Target Group:

(a) *Securities underwriting and consultancy*

The Target Group currently acts as underwriters for initial public offerings (the "IPO") and other securities fund raising activities and provides consultancy and coordination services for debt issuance.

Since its commencement of the equity securities underwriting business in late 2016, the Target Group has completed a number of IPO underwriting transactions, including acting as the sole global coordinator, sole bookrunner and sole lead manager for Food Wise Holdings Limited (stock code: 1632) in November 2016, the joint bookrunners and joint lead managers for Royal Deluxe Holdings Limited (stock code: 3789) and the co-manager for Sanroc International Holdings Limited (stock code: 1660) in February 2017. Going forward, the Target Group will strive to

## LETTER FROM THE BOARD

participate in more IPO underwriting and equity financing transactions in order to build up its reputation, enlarge its customer base and increase its revenue with a view to becoming one of the leading players in assisting fund raising activities for small to medium enterprises in Hong Kong and the PRC. At the same time, the Target Group will strengthen its team capabilities in handling the engagements and increase efforts in marketing the business. The Target Group could make use of the business networks of Zhuhai Huafa group in the PRC and/or collaborate with WAG Worldsec Corporate Finance Limited (a wholly-owned subsidiary of the Company which is a licensed corporation carrying out business in Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities) as sponsor in IPO projects to provide comprehensive one-stop financial services to customers and create synergies effects within the Group. There are currently two pipeline projects for IPO underwriting in collaboration with WAG Worldsec Corporate Finance Limited in 2017.

In respect of debt issuance and consultancy services, the Target Group acted as the global coordinator, bookrunner and lead manager for the offshore debt issuance programs of the Zhuhai Huafa group since 2014 and intends to continue to participate in similar future issuance program of the Zhuhai Huafa group from time to time. During the first quarter of 2017, the Target Group has involved in two guaranteed bond issuance engagements with issue size of US\$300 million in aggregate. Capitalising on its previous successful experience and track record as described above, the Target Group believes it is in a position to expand its customer base to include other PRC corporations and become a competitive debt issuance consultant in the market.

*(b) Securities and futures brokerage business*

The Target Group currently provides comprehensive securities and stock options trading services and index futures trading services in Hong Kong.

In view of the increasing demand of offshore investment services of PRC investors, the Target Group has been devoting its resources to build up its customer base of quality investors from the PRC. In addition, the Target Group intends to actively expand its margin financing business, with a view to expanding its interest income in addition to commission income from the existing securities brokerage business. The Target Group believes that the margin financing business complements its brokerage services and provides greater flexibility for its customers to capture opportunities in the capital market. The Target Group intends to further expand its margin financing business in the second half of 2017 and continue to enhance its credit assessment and risk management policy to accommodate the further development of this business. In addition, the Target Group plans to expand its customer base by recruiting additional professionals with established customer base comprising listed companies, their controlling shareholders and high net worth individuals to the team. Currently, the Target Group has accumulated a number of customers for its brokerage business in which over 40% of them are investors from the PRC. It is expected that the development plan described above will help increase the number of customers of the Target Group.

## LETTER FROM THE BOARD

(c) *Equity research business*

As a complementary service to its equities and futures brokerage business, the Target Group issues analyst research reports on markets, industries or individual listed companies to the customers of the Target Group and other public investors in Hong Kong.

In 2016, the Target Group issued over 160 research reports, attended over 250 media interviews and participated in over 60 analysts meetings. In the future, the Target Group plans to strengthen its research capabilities and increase its coverage on IPOs. The Target Group believes that possible synergies would be created from the provision of quality research services to generate opportunities for the other business segments of the Target Group and the competitiveness of the Target Group as a whole would be enhanced.

As advised by the management of the Target Group, the current principal operating costs of the Target Group are mainly staff-related costs and majority of the funding needs of the Target Group to implement the abovementioned business plan are expected to be associated with the margin financing business. Subject to market conditions and the availability of favourable terms, the Board will consider to finance the operations of the Target Group by the Group's internal resources, bank borrowings, shareholder's loans, equity and/or other debt financing if the Acquisition materialises.

Having considered (i) the existing established business platform of the Target Group; (ii) the Target Group's track record and existing customers base; (iii) the development plan formulated for the Target Group as described above; (iv) the resources and niches of the Zhuhai Huafa group (details of which are described in the paragraph headed "networks and connections" below) accessible to the Target Group, the Board considered that the Target Group have adequate resources and capability to establish itself as a comprehensive financial platform with foothold in Zhuhai and across China and to serve quality customers in Hong Kong and the PRC.

### **Management team**

The Target Group is currently managed by a team of professionals who are experienced in the financial services industry.

The Chairman of the Target Group is responsible for the overall management of the Target Group. He possesses over 22 years of experience in the financial and insurance industry. Prior to joining the Target Group, he has taken up key managerial positions in a number of financial institutions, including but not limited to Manulife Teda Fund Management Co., Ltd., First State Cinda Fund Management Co., Ltd. and Ping An-UOB Fund Management Co., Ltd.

The Chief Executive Officer of the Target Group possesses 20 years of experience in investment banking industry. Prior to joining the Target Group in the end of 2016, he was the head of the investment banking division of a numbers of renowned PRC-based

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investment banks and was involved in supervising and handling a large number of IPOs, corporate and debt restructurings, bridging loan financings, mergers and acquisitions, and extensive financial advisory work for enterprises in the Greater China Region, Europe, Japan, Singapore and Australia. He is a licensed person registered with the SFC and is a responsible officer for type 6 (advising on corporate finance) regulated activity.

The managing director of the equity capital market department of the Target Group possesses more than 26 years of experience in the investment banking industry and equity capital markets, including IPOs and securities underwriting. Prior to joining the Target Group in the end of 2016, he worked in the equity capital market department of several renowned international investment banks and participated in numerous equity and equity related transactions, including IPOs in various markets covering Hong Kong and other Asian countries. He is a licensed person registered with the SFC and is a representative for type 1 (dealing in securities) regulated activity.

The assistant vice president of the securities department of the Target Group is a licensed person registered with the SFC and is a responsible officer for type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities. She possesses over 42 years of experience in the provision of securities and futures brokerage services.

The research director of the research department of the Target Group is a licensed person registered with the SFC and is a responsible officer for type 4 (advising on securities) regulated activity and a representative for type 1 (dealing in securities) regulated activity. He has over 10 years of experience in equity research and economy analysis.

The business development director of the securities department of the Target Group is a licensed person registered with the SFC and is a responsible officer for type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities and a representative for type 4 (advising on securities) regulated activity. He possesses over 32 years of experience in the financial industry.

Apart from the aforesaid key personnels who will lead the implementation of the business plan of the Target Group, the Target Group also plans to recruit additional professionals to join its team depending on its business needs from time to time.

### **Networks and connections**

Capitalising on the strong background and extensive business and customers networks of the Zhuhai Huafa group, and in view of the national strategy in relation to the development of Guangdong-Hong Kong-Macau Big Bay Area and the recent statement of the Securities and Futures Commission in supporting the listing of infrastructure

## LETTER FROM THE BOARD

companies under the Belt and Road Initiative in Hong Kong, the Company believes the Target Group is well positioned to expand its customer base in the PRC, as more particularly explained below.

According to the management of the Target Group, the existing customer network of the Target Group includes mainly domestic customers and investors from the PRC, as well as PRC enterprises listed in Hong Kong which were introduced by the professionals joining the Target Group in late 2016.

Zhuhai Huafa is a leading state-owned enterprise in Zhuhai and one of the China Fortune's 500 companies. Zhuhai Huafa is the controlling shareholder of three listed companies, namely (a) Zhuhai Huafa Industrial Co., Ltd (listed on the Shanghai Stock Exchange); (b) Zhuhai Huajin Capital Co., Ltd. (listed on the Shenzhen Stock Exchange); and (c) the Company. Being a conglomerate engaging in different business sectors, including but not limited to urban operation, property development, financial service, industrial investment and commercial trading business, the Zhuhai Huafa group may from time to time requires overseas funding for its own business needs. It may also come across other offshore funding raising opportunities through its extensive investment and business networks which the Target Group may tap into. For instance, under the urban operation segment, the Zhuhai Huafa group is one of the leading infrastructure constructors in Guangdong Province and has property development business over various cities in the PRC. These urban operation and property development projects may have potential demands for asset securitisation and issuance of foreign currency bonds. In relation to the financial segment, Zhuhai Huafa, through the Vendor, currently operates the business of the Target Group in Hong Kong and a comprehensive platform in the PRC with interests in 9 financial institutions and 73 quasi-financial institutions covering businesses over major financial centres in the PRC such as Beijing, Shanghai, Shenzhen and Tianjin. The businesses of these financial institutions include, among other things, securities, futures, insurance and financing leasing, and possess clients base comprising high net worth individuals and corporate clients which have demands for offshore investments. The industrial investment segment of the Zhuhai Huafa group has invested in over 100 projects by the end of March 2017 with an aggregate investment size of over RMB10 billion. Some of these projects may seek for listing on offshore exchanges and/or debt issuance in offshore markets. In addition, through the commercial trading business, the Zhuhai Huafa group has business relationship with numerous sizeable onshore and offshore enterprises with business demand in futures trading.

Taking into account the above demands and connections of the Zhuhai Huafa group, the possible opportunities available to the Target Group may include (i) provision of offshore financial services, such as securities underwriting and margin financing services, for the business partners of the Zhuhai Huafa group; (ii) sharing of client base and business network with the licensed financial companies in the PRC under the Zhuhai Huafa group; and (iii) provision of offshore debt issuance and asset securitisation service to Zhuhai Huafa and other related parties.

## LETTER FROM THE BOARD

While the Company does not have any existing agreement with the Zhuhai Huafa group in relation to the business of the Target Group, Zhuhai Huafa as the Company's ultimate controlling Shareholder is prepared to provide necessary support to the business of the Group and may enter into agreement(s) with the Group in relation to the Target Group's business where suitable opportunities arise. Upon Completion, transactions of the Target Group with members of the Zhuhai Huafa group (including provision of consultancy services in relation to debt issuance) (if any) will become connected transactions for the Company under Chapter 14A of the Listing Rules. The Company will comply with all relevant requirements under the Listing Rules in connection with such connected transactions (if any) as and when appropriate.

### Financial information

Set out below are the financial information of the Target Group as extracted from its audited consolidated financial statements for the year ended 31 December 2015 and unaudited consolidated financial statements for the year ended 31 December 2016 respectively, which were prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the year ended 31 December	
	2015	2016
	HK\$'000	HK\$'000
	(Audited)	(Unaudited)
Revenue	20,899	4,203
Profit/(loss) before taxation	938	(31,681)
Profit/(loss) after taxation	864	(31,549)

The revenue of the Target Group for the year ended 31 December 2015 mainly represented consultancy fees for debt issuance received from members of the Zhuhai Huafa group. For the year ended 31 December 2016, the revenue of the Target Group mainly represented the underwriting commission income received from an independent customer for its IPO on the Stock Exchange. After taking into account the administrative expenses which were mainly salaries and rental expenses, the Target Group recorded profit after taxation of approximately HK\$864,000 and a loss after taxation of approximately HK\$31.5 million for the two years ended 31 December 2015 and 2016 respectively. The decline in the financial results of the Target Group for 2016, as compared to 2015, was mainly attributable to (i) the increase in salaries and rental expenses of the Target Group as a result of increasing staff size and relocation to a new office in 2016 to facilitate its business development as described in the paragraph headed "overview of principal business" above; and (ii) the postponement of a debt issuance consultancy engagement from 2016 to the first quarter 2017.

The audited consolidated net assets of the Target Group amounted to approximately HK\$43,508,000 as at 31 January 2017.

## LETTER FROM THE BOARD

### REASONS FOR AND BENEFITS OF THE ACQUISITION AND BASIS OF DETERMINING THE CONSIDERATION

#### Reasons for and benefits of the Acquisition

As disclosed in the annual report of the Company for the year ended 31 December 2016, it has been the Group's strategy to focus on enhancing the competitiveness of its core business and simultaneously, continue to explore new business opportunities.

The Group is principally engaged in provision of financial printing services, property investment and financial advisory services in Hong Kong. The Group currently holds the licences to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. The Directors believe that the Target Group's securities underwriting and consultancy, securities and futures brokerage and equity research businesses will be highly complementary to the existing financial advisory services of the Group. The Acquisition will enable the Group to leverage on the licences held by the Target Group, including the licences to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO respectively, for further expansion of the financial services business and to provide comprehensive one-stop financial services to its customers, and is hence in line with the Group's strategy to enhance competitiveness of its core business and to explore new business opportunities.

As the Target Group has all the requisite licences and qualified personnel to carry out securities underwriting and consultancy, securities and futures brokerage and equity research businesses with an established customer base, the Group, through the Acquisition, will have instant access to a readily available financial business platform which is complementary to the existing business of the Group. The Acquisition would also avoid direct business competition between the Company and the Target Group. Through the Acquisition, the Group and the Target Group will be able to consolidate their respective experience, resources and business network to create synergies and business opportunities to each other. The extensive business connections of the Target Group and the group of companies under Zhuhai Huafa in the PRC will also enhance the Group's customer base in the PRC. Having considered the synergies which may be created between the Group and the Target Group and the increasing opportunities arising from a wider spectrum of financial services business, the Board believes that the Acquisition will further strengthen the footholds of the Group in the financial services industry in Hong Kong.

The Directors possess substantial experience in the financial services industry which would bring value to the business of the Target Group. Mr. Li Guangning and Mr. Xie Wei, both executive Directors, hold various directorships in the Zhuhai Huafa group (including its subsidiaries comprising the financial services platforms) and Mr. Xie Wei has been the director of the Target since its incorporation. As directors, Mr. Li and Mr. Xie participated in strategic planning, implementation of development plan and operations of the major financial institutions in which Zhuhai Huafa holds interest. Through these experiences, Mr. Li and Mr. Xie gained relevant and substantial knowledge in the financial services industry and business operation. In addition, the independent non-executive

## LETTER FROM THE BOARD

Directors also possess extensive managerial experience in the financial industry. Mr. Tse Yung Hoi is the chairman and non-executive director of BOCI-Prudential Asset Management Limited and a life honorary president of Chinese Securities Association of Hong Kong. Dr. Sun Mingchun is the chairman and chief investment officer of Deepwater Capital Limited and the vice chairman of the Chinese Financial Association of Hong Kong. Dr. Chen Jieping is a professor of the EMBA program of the China Europe International Business School and is an independent non-executive director of Industrial Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code: 601377).

The Board noted that the Target Group mainly derived its revenue from consultancy fees for debt issuance of the members of the Zhuhai Huafa group for the year ended 31 December 2015 and incurred a loss before taxation for the year ended 31 December 2016. However, having taken into account (i) the time and resources which would otherwise required by the Company in establishing its own financial business platform; (ii) the improvement in the financial performance of the Target Group whereby its revenue for the first quarter of 2017 (mainly generated from two securities underwriting and two debts issuance consultancy services) has already exceeded the total revenue for the year ended 31 December 2016; (iii) the business development plan of the Target Group; (iv) the possible opportunities available to the Target Group as described above; and (v) the potential synergies to be created with the Group's existing financial advisory business, the Directors are confident about the future development of the Target Group.

The Company has no intention or plan to change its existing business but the Board will from time to time review its operations with a view to developing suitable business strategy to enhance the Shareholders' value, the growth of its business and to optimise its asset base as well as to broadening its income stream, which may include, subject to market conditions, the expansion of the scope of business of the Group should appropriate opportunities arise.

### **Basis of consideration**

The consideration for the Sale Shares of HK\$76,467,600 was determined after taking into account (i) the valuation of 100% of issued share capital of the Target as at 31 January 2017 of HK\$80,046,000 as assessed by Greater China Appraisal Limited, an independent professional valuer, based on market approach (details of which are set out in the valuation report in Appendix I to this circular); (ii) the business plan and future prospects of the Target Group (details of which are disclosed in the section "Information on the Target Group"); and (iii) the potential synergies which may be created with the Group's existing financial advisory business as described in the paragraph headed "Reasons for and benefits of the Acquisition" above.

## LETTER FROM THE BOARD

As advised by Greater China Appraisal Limited, the valuation of 100% of issued share capital of the Target as at 31 January 2017 was determined by reference to the mean price-to-net book value ratio (the “P/NBV”) of a number of selected guideline public companies (the “GPC”) listed in Hong Kong principally engaged in similar business as that of the Target Group. As disclosed in the valuation report set out in Appendix I to this circular, the recent trading price could reflect the comparable target companies’ fundamentals and risk expectation of engaging in similar business in the market despite such comparable companies have different size of operation scale and hence the P/NBV method is considered as an appropriate valuation multiple for capital-intensive businesses or financial businesses. The P/NBV can also be established by reference to the guideline merger and acquisition (the “GMA”) transactions. Both the P/NBVs under the GPC method and the GMA transactions can be served as reasonable basis for conclusion. Since the P/NBV under the GPC method indicates the result as at 31 January 2017, i.e. the valuation date, it is selected as the conclusive basis while the P/NBV generated from the GMA transactions is served as cross-reference purpose. As set out in the valuation report in Appendix I to this circular, the valuation results based on the P/NBV under the GPC method has been cross-referenced to the results generated from the P/NBV of the GMA transactions, where the scale of the business and operation of the subject companies in the GMA transactions are fairly close to that of the Target Group. In view of (i) the results of P/NBV under the GPC method falls within the range of P/NBV under the GMA transactions; and (ii) the P/NBV of the GPC method can be established as at the valuation date on 31 January 2017, which is considered as more recent as compared to those comparables found in the GMA transactions, the Board considered the valuation of 100% of issued share capital of the Target as at 31 January 2017 using the P/NBV method provides an appropriate indication on the market value of the Target Group and a fair and reasonable factor in determining the consideration for the Sale Shares.

The Board is of the view that the consideration for the Sale Shares is fair and reasonable and in the interest of the Company and the Shareholders as a whole after having taken into account (i) the valuation of 100% of issued share capital of the Target assessed by an independent professional valuer of the Company based on market approach, which is slightly higher than the consideration; (ii) the prospects of the Target Group and the capability of its management team, which may create synergies with and enlarge the network and scale of the Company's existing financial services business; (iii) the improvement in the recent financial performance of the Target Group; and (iv) the business development plan of the Target Group as described in the section headed “Information on the Target Group” above.

In view of the above, the Board (including the independent non-executive Directors) is of the view that the terms of the Agreement (including the consideration) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### LISTING RULES IMPLICATIONS

The Acquisition constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## LETTER FROM THE BOARD

The Vendor and the Zhuhai Exchange are connected persons of the Company under Chapter 14A of the Listing Rules by virtue of being subsidiaries of Zhuhai Huafa, the ultimate controlling Shareholder. Accordingly, the Acquisition (including the service fee payment to the Zhuhai Exchange) constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In the event that the Company fails to proceed with the Acquisition (due to reasons including but not limited to the failure to obtain the Independent Shareholders' approval at the SGM), the Zhuhai Exchange is entitled to forfeit the Deposit of HK\$7,700,000 paid by the Company before the participation in the online bidding session. Based on the amount of the Deposit, the possible forfeiture of the Deposit, if materialised, will constitute a connected transaction for the Company subject to the reporting and announcement requirements but is exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi, has been established to give recommendation to the Independent Shareholders in respect of the Acquisition. Somerley Capital has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The voting in respect of the Acquisition at the SGM will be conducted by way of a poll. Huajin Investment (an indirect wholly-owned subsidiary of Zhuhai Huafa) and its associates are required to abstain from voting on the resolution approving the Agreement and the transactions contemplated under at the SGM. Save for the aforementioned and to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Acquisition and is required to abstain from voting on the resolution(s) approving the Agreement and the transactions contemplated thereunder at the SGM.

None of the Directors have a material interest in the Agreement and the transactions contemplated thereunder and therefore no Director has abstained from voting on the board resolutions of the Company to approve the Agreement and the transactions contemplated thereunder.

### **SGM**

The SGM will be convened and held at 2:30 p.m. on Tuesday, 23 May 2017 at Unit 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder.

## LETTER FROM THE BOARD

The notice of SGM is set out on pages SGM-1 and SGM-2. Whether or not you intend to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be), if you so wish.

For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Thursday, 18 May 2017 to Tuesday, 23 May 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the SGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 17 May 2017.

### RECOMMENDATION

The Directors (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee) consider that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

Your attention is drawn to the letter from the Independent Board Committee as set out on page 20 of this circular which contains its recommendation to the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder after taking into account the advice of Somerley Capital, and the letter from Somerley Capital as set out on pages 21 to 38 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Agreement and the transactions contemplated thereunder.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board  
**iOne Holdings Limited**  
**Li Guangning**  
*Chairman*

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

*The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this circular.*

# iOne Holdings Limited 卓智控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 982)**

28 April 2017

*To the Independent Shareholders*

Dear Sir/Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HUAJIN FINANCIAL (INTERNATIONAL) HOLDINGS LIMITED**

We refer to the circular of the Company dated 28 April 2017 (the “Circular”) of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to give recommendation to you in respect of the Acquisition. Somerley Capital has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into account, are contained in their letter set out on pages 21 to 38 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to this Circular.

#### **RECOMMENDATION**

Having considered the advice of Somerley Capital, we are of the opinion that (i) the Acquisition, though not in the ordinary and usual course of business of the Group, is in line with the business strategy of the Group; (ii) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Acquisition is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

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

**Dr. Chen Jieping**  
*Independent non-executive  
Director*

**Dr. Sun Mingchun**  
*Independent non-executive  
Director*

**Mr. Tse Yung Hoi**  
*Independent non-executive  
Director*

\* For identification purpose only

## LETTER FROM SOMERLEY CAPITAL

*The following is the letter of advice from Somerley Capital Limited, the independent financial adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**

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

28 April 2017

*To: the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HUAJIN FINANCIAL (INTERNATIONAL) HOLDINGS LIMITED**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition pursuant to the Agreement entered into between the Company (as the purchaser) and 珠海金融投資控股集團有限公司 (Zhuhai Financial Investment Holdings Group Co., Ltd.\*) (as the Vendor). Details of the Acquisition are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 28 April 2017 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

The Acquisition constitutes a discloseable transaction for the Company under the Listing Rules. The Vendor and the Zhuhai Exchange are connected persons of the Company under Chapter 14A of the Listing Rules by virtue of being subsidiaries of Zhuhai Huafa, the ultimate controlling Shareholder. Accordingly, the Acquisition (including the service fee payment to the Zhuhai Exchange) constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements as stipulated under the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Agreement and the transactions contemplated thereunder at the SGM.

The Independent Board Committee, comprising all three independent non-executive Directors, namely Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi, has been established to advise the Independent Shareholders on whether (1) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Acquisition is in the interests of the Company and the Shareholders as a whole. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

## LETTER FROM SOMERLEY CAPITAL

During the past two years, there were no engagements between the Company and Somerley Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited; (b) the Group; and (c) the Vendor that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition pursuant to the Agreement as detailed in the Circular.

In formulating our opinion, we have reviewed, among other things, (i) the valuation report dated 28 April 2017 from Greater China Appraisal Limited (the “**Independent Valuer**”) in relation to the fair value of 100% equity interest of the Target Group as at 31 January 2017 as set out in Appendix I to the Circular; (ii) the financial information of the Target Group as summarised in the sub-section headed “Financial information of the Group” of this letter below; and (iii) the Agreement. We have also relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects and will remain so up to the time of the SGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and the Vendor, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (1) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Acquisition is in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

#### 1. **Background to and reasons for the Agreement**

##### *Principal activities of the Group*

The Group is principally engaged in the provision of financial printing services (which mainly include the printing of IPOs prospectuses, financial reports, company announcement and circulars, etc.), property investment and financial advisory services in Hong Kong. The Group currently holds the licences to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. As set out in the Company’s annual report for the year ended 31 December 2016 (the “**2016 Annual Report**”), the Group recorded revenue of approximately HK\$156.0 million, of which approximately 99.7% was contributed by its financial

## LETTER FROM SOMERLEY CAPITAL

printing services and investments holding segment. As advised by the executive Directors and as set out in the 2016 Annual Report, due to rigorous competition in the market and a drop in IPO cases, the Group's revenue from continuing operations decreased by approximately 15.1% for the year ended 31 December 2016 as compared to 2015. For the year ended 31 December 2016, the Group's profit attributable to owners of the Company was approximately HK\$3.2 million, as compared to approximately HK\$13.1 million in 2015, mainly attributable to the material decrease in sales and gross profit from the financial printing business.

As disclosed in the Company's 2016 Annual Report, the Group will focus on enhancing the competitiveness of its core business and simultaneously continue to explore new business opportunities. As announced on 30 June 2016, the Company completed the acquisition of the entire equity interest in WAG Worldsec Corporate Finance Limited ("**WAG Worldsec**"), a licensed corporation carrying out business in Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. After the acquisition, the Company commenced providing corporate finance and securities advisory services. For the year ended 31 December 2016, the Group recorded revenue of approximately HK\$537,000 for the financial advisory services segment.

### *Recent development and future development plans of the Target Group*

In order to further strengthen its foothold in the financial services industry and broaden the scope of the financial services it offers, the Company, after succeeding in the online bidding for the Target, entered into the Agreement to acquire the entire issued share capital of the Target. As at the Latest Practicable Date, the Target is a wholly-owned subsidiary of the Vendor, a state-owned financial conglomerate in the PRC headquartered in Hengqin New Area of Zhuhai and is under the supervision of State-owned Asset Supervision and Administration Committee of the Zhuhai Municipal Government. As set out in the section headed "Information on the Target Group" in the "Letter from the Board" contained in the Circular, the Target was established by the Vendor in Hong Kong in June 2013 and the Target Group is principally engaged in the securities underwriting and consultancy, securities and futures brokerage and equity research businesses and holds the licences to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO. It also holds a money lender's licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

## LETTER FROM SOMERLEY CAPITAL

According to its official website, the Target assists quality companies in the PRC to explore methods of financing in the international capital market and provides its customers comprehensive financial and investment services including securities and futures dealing, global commodities trading, margin financing and consumer financing services. During the start-up stage of the Target Group, its revenue was mainly derived from the provision of consultancy services in relation to debt issuance to members of the Zhuhai Huafa group. With an aim to expanding its external customer base, enhancing its market share and developing itself into an integrated financial services group in Hong Kong, the Target Group applied for the necessary licences to carry out regulated activities under the SFO since 2015 and rolled out securities and futures brokerage business as well as the equity research business in 2016. In late 2016, the Target Group recruited a team with substantial experience in the investment banking industry and as advised by the executive Directors, there has been steady growth in the Target Group's Hong Kong and PRC customer base for its securities and futures business. The Target Group has recently completed a number of underwriting engagements relating to initial public offerings on the Stock Exchange as well as a debt issuance project whereby consultancy service was provided by the Target Group (as further discussed below), and there are deals in the pipeline in collaboration with the Group (through WAG Worldsec).

Details of the recent development and future development plans of the Target Group for each of the above businesses are also set out in the section headed "Information on the Target Group" in the "Letter from the Board" contained in the Circular. Among which, the Target Group has (i) completed different underwriting transactions for initial public offerings and debt issuance including acting as the global coordinator, bookrunner, lead manager and/or co-manager of companies listed on the Stock Exchange in November 2016 and February 2017; (ii) accumulated a number of customers for its brokerage business in which over 40% of them are investors from the PRC; and (iii) issued over 160 research reports, attended over 250 media interviews and participated in over 60 analysts meetings in 2016. The Target Group also intends to, among other things, (a) participate in more initial public offerings underwriting and equity financing transactions; (b) further expand its margin financing business in the second half of 2017; and (c) strengthen its research capabilities and increase its coverage on initial public offerings. It is expected that the operations of the Target Group after the Acquisition will be financed by the Group's internal resources, bank borrowings, shareholder's loans, equity and/or other debt financing.

## LETTER FROM SOMERLEY CAPITAL

The executive Directors consider that the Acquisition will allow the Group to have instant access to a readily available financial business platform which is complementary to the existing business of the Group and it will save the time and resources which would otherwise required by the Company in establishing its own financial business platform. As set out in the section headed "Information on the Target Group" in the "Letter from the Board" contained in the Circular, possible opportunities available to the Target Group taking into account connections of the Zhuhai Huafa group may include (1) provision of offshore financial services for the business partners of the Zhuhai Huafa group; (2) sharing of client base and business network with the licenced financial companies in the PRC under the Zhuhai Huafa group; and (3) provision of offshore debt issuance and asset securitisation service to Zhuhai Huafa and other related parties. While the Company does not have any existing agreement with the Zhuhai Huafa group in relation to the business of the Target Group, Zhuhai Huafa, as the Company's ultimate controlling Shareholder, is prepared to provide necessary support to the business of the Group and may enter into agreement(s) with the Group in relation to the Target Group's business where suitable opportunities arise.

Further details of the networks and connections of the Zhuhai Huafa group, the recent development and future development plans of the Target Group are set out in the section headed "Information on the Target Group" in the "Letter from the Board" contained in the Circular.

### *Management team*

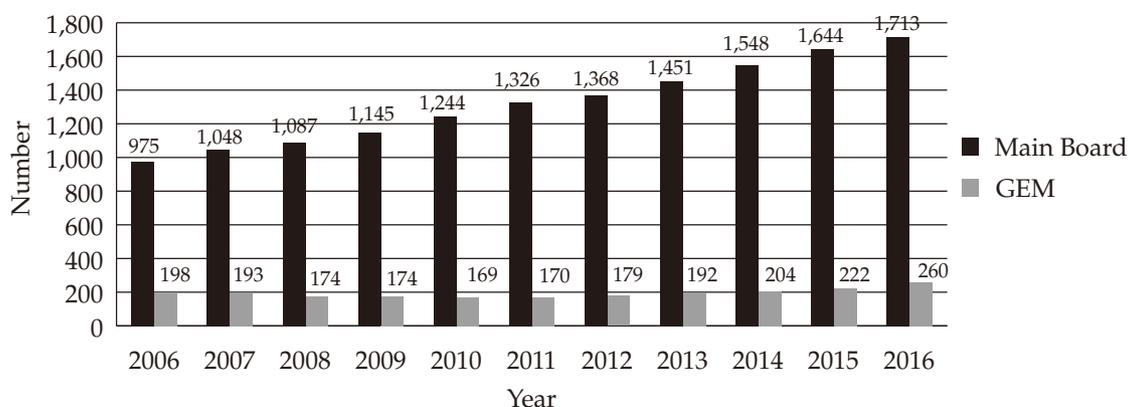
As set out in the section headed "Information on the Target Group" in the "Letter from the Board" contained in the Circular, the chairman of the Target Group has over 22 years of experience in the financial and insurance industry and the chief executive officer of the Target Group has 20 years of experience in investment banking industry. Further details of their experience and that of other key personnel of the Target Group are set out in the aforesaid section in the "Letter from the Board" contained in the Circular. As set out in the section headed "Reasons for and benefits of the Acquisition and basis of determining the consideration" of the "Letter from the Board" contained in the Circular, the Directors possess substantial experience in the financial services industry which would bring value to the business of the Target Group. Further details are set out in the aforesaid section.

## LETTER FROM SOMERLEY CAPITAL

### *Target Group's potential market*

As noted from the website of the Securities and Futures Commission, as at 31 December 2016, the Stock Exchange had a market capitalisation of approximately US\$3,193.2 billion making it the eighth largest stock exchange in the world and fourth in Asia in terms of market capitalisation. According to its website, the Stock Exchange recorded average daily turnover of approximately HK\$105.6 billion during the year 2015, and approximately HK\$66.9 billion during the year of 2016. Set out below is a chart showing the number of companies listed on the Stock Exchange (both Main Board and Growth Enterprise Market of the Stock Exchange) as at the respective year end date on 31 December, from 2006 to 2016:

**Number of listed companies on the Stock Exchange**



Source: SFC website

As illustrated above, there were more than 100 newly listed companies in each year since 2013. The executive Directors are of the view that this pipeline of new listings, together with the launching of the Shanghai-Hong Kong Stock Connect in 2014 and Shenzhen-Hong Kong Stock Connect in 2016, creates increasing opportunities for the securities and corporate finance advisory business of the Enlarged Group, and that the long-term prospect of the Enlarged Group is positive despite challenges such as intense competition. The executive Directors believe that the Target Group's businesses will be highly complementary to the existing financial advisory services of the Group, and allow the Group to provide one-stop financial services to its customers. Through the Acquisition, the Group will have immediate access to the Target Group's established platforms and networks for the securities and futures brokerage business and will expand its scope of services. Leveraging on the expertise, customer base and business network of the Target Group in Hong Kong and the PRC, the executive Directors consider that synergies will be created between the Group and the Target Group, which in turn will enhance the Group's profitability and benefit the Group's business development in the long-term.

## LETTER FROM SOMERLEY CAPITAL

Having considered the above, including, among other things, the businesses of the Group and its development strategy, recent development and future development plans of the Target Group, qualifications and experience of management of the Target Group and the Group, and the prospects of the Target Group's industry, we concur with the executive Directors that long-term prospects of the Enlarged Group seem encouraging despite competitive challenges, and the Acquisition will strengthen the Group's business presence in the financial services industry and is in line with its development strategy.

### 2. Principal terms of the Agreement

Principal terms of the Agreement are summarised below. Further details of the principal terms of the Agreement are set out in the section headed "The Agreement" in the "Letter from the Board" contained in the Circular.

#### (A) *Subject of the Acquisition*

Pursuant to the Agreement, the Company (as the Purchaser) conditionally agreed to acquire, and 珠海金融投資控股集團有限公司 (Zhuhai Financial Investment Holdings Group Co., Ltd.\*) (as the Vendor) conditionally agreed to sell, the Sale Shares. The Sale Shares, representing the entire issued share capital of the Target, will be sold free from encumbrances and together with all rights attaching thereto from Completion, including any dividend or other distribution to be declared, made or paid upon or after Completion.

#### (B) *Consideration and payment terms*

The consideration for the Sale Shares (i.e. the final bid price submitted by the Company at the online bidding session) is HK\$76,467,600 and shall be payable by the Company to the Vendor in cash at Completion.

#### (C) *Basis of consideration*

As set out in the sub-section headed "Basis of consideration" under the section headed "Reasons for and benefits of the Acquisition and basis of determining the consideration" in the "Letter from the Board" contained in the Circular, the consideration for the Sale Shares of HK\$76,467,600 was determined after taking into account (a) the valuation of 100% of issued share capital of the Target as at 31 January 2017 of approximately HK\$80.0 million as appraised by the Independent Valuer based on market approach; (b) the business plan and future prospects of the Target Group; and (c) the potential synergies which may be created with the Group's existing financial advisory business. Further details with respect to the valuation are set out in Appendix I to the Circular. In accordance with the tender procedures, the Company shall pay a service fee in the amount of approximately RMB1.32 million (equivalent to approximately HK\$1.49 million based on the exchange rate of RMB1 = HK\$1.127) to the Zhuhai Exchange upon Completion.

## LETTER FROM SOMERLEY CAPITAL

The Company has paid a deposit in the sum of HK\$7,700,000 (the “**Deposit**”) (representing approximately 10% of the floor bid price of HK\$76,467,600) to the Zhuhai Exchange before participation in the online bidding session, and such Deposit shall be fully refunded to the Company upon the Company’s full settlement of the final bid price and service fee. In the event that the Company fails to proceed with the Acquisition (due to reasons including but not limited to the failure to obtain the Independent Shareholders’ approval at the SGM), the Zhuhai Exchange is entitled to forfeit the Deposit. As set out in the section headed “The Agreement” in the “Letter from the Board” contained in the Circular, the Zhuhai Exchange requires all interested bidders for any tender organised therein to pay a deposit representing 10% of the floor bid price to ensure bidders to participate in the tender process in a strictly open, fair and just manner. As set out in the sub-section headed “Background to and reasons for the Agreement” of this letter above, the executive Directors consider that the Acquisition will allow the Group to have instant access to a readily available financial business platform which is complementary to the existing business of the Group. We are advised by the executive Directors that the Group has been discussing with Zhuhai Huafa for further collaboration. As the Target Group has all the requisite licences and qualified personnel to carry out its businesses and the executive Directors consider that synergies will be created between the Group and the Target Group through the Acquisition, the executive Directors have discussed with Zhuhai Huafa for acquiring the Target Group. On the other hand, the executive Directors are of the view that identifying potential target companies from independent third parties may result in additional time and costs, which may include, among other things, time and costs for engaging a consultancy firm to provide market intelligence on potential target companies and time for approaching the shareholders of the shortlisted potential target companies. The executive Directors also expect that more time will be needed to negotiate the terms (including representations and warranties) of the agreement with an independent third party. Having taken into account (1) the arrangement of paying a deposit applies to all the bidders for tender organised in the Zhuhai Exchange; (2) costs and time that may be needed for the Group to identify a potential target company from an independent third party; (3) the expected benefits to the Group arising from the Acquisition as set out in the sub-section headed “Background to and reasons for the Agreement” of this letter above; (4) the valuation of 100% of issued share capital of the Target assessed by the Independent Valuer being slightly higher than the consideration for the Sale Shares as set out in the sub-section headed “Evaluation of the consideration for the Acquisition” of this letter below; and (5) the implied P/B ratio of the Target Group as represented by the consideration for the Sale Shares is within the range and below the mean of the P/B ratios of the Comparable Transactions as set out in the sub-section headed “Comparable transactions” of this letter below, on balance, we consider the deposit arrangement to be acceptable so far as the Independent Shareholders are concerned.

## LETTER FROM SOMERLEY CAPITAL

*(D) Conditions precedent to the Acquisition*

Completion shall take place on the fifth Business Day after all the conditions have been fulfilled or waived (as the case may be) or such other date as the Company and the Vendor may agree. Conditions precedent to the Acquisition include, among other things, (i) the approval by the Independent Shareholders at the SGM; and (ii) the Company having obtained the SFC's approval in respect of the Acquisition and for becoming a substantial shareholder of the respective members of the Target Group. Further details of the conditions precedent to the Acquisition are set out in the sub-section headed "Conditions precedent" under the section headed "The Agreement" in the "Letter from the Board" contained in the Circular. As at the Latest Practicable Date, none of the conditions precedent to the Acquisition have been fulfilled or waived (as the case may be).

*(E) Long stop date and termination*

The Long Stop Date is 30 September 2017. If any of the conditions precedent to the Acquisition is not fulfilled or waived (as the case may be) on the Long Stop Date, the Company as the right to, at its discretion, (i) waive the conditions that have not been fulfilled (except for certain conditions which are not waivable); (ii) extend the Long Stop Date to another date; or (iii) terminate the Agreement in accordance with its terms. Further details are set out in the sub-section headed "Conditions precedent" under the section headed "The Agreement" in the "Letter from the Board" contained in the Circular.

### 3. Financial information of the Target Group

*(a) Financial results*

The following is an extract of the financial information of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards for the years ended 31 December 2014, 2015 (financial information for 2014 and 2015 as extracted from the audited accounts of the Target Group for the year ended 31 December 2015) and 2016 (financial information for 2016 as extracted from the unaudited management accounts of the Target Group for the year ended 31 December 2016) respectively.

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4,000	20,899	4,203
Other income	7,700	4,113	7,180
Administrative expenses	(5,526)	(20,235)	(43,278)
Profit/(loss) before taxation	1,143	938	(31,681)
Profit/(loss) for the year	1,075	864	(31,549)

## LETTER FROM SOMERLEY CAPITAL

As advised by the executive Directors and as set out in the section headed “Information on the Target Group” in the “Letter from the Board” contained in the Circular, the revenue of the Target Group mainly represented (1) consultancy fees for financial advisory received from members of the Zhuhai Huafa group for the year ended 31 December 2014; (2) consultancy fees for debt issuance received from members of the Zhuhai Huafa group for the year ended 31 December 2015; and (3) underwriting income for an initial public offering of an independent client on the Stock Exchange for the year ended 31 December 2016. As advised by the executive Directors, the Target was newly established in 2013 and the Target Group was still in its start-up stage in 2014. Since 2015, the Target Group expanded its size and applied for the necessary licences to carry out regulated activities under the SFO. For the year ended 31 December 2016, the Target Group recorded a revenue of approximately HK\$4.2 million, representing a decrease of approximately HK\$16.7 million compared to 2015, which was mainly due to the postponement of engagement from 2016 to 2017. Other income during the three years from 2014 to 2016 mainly represented interest income while administrative expenses represented mainly rental expenses and staff costs. As advised by the executive Directors, the increase in administrative expenses in 2015 and 2016 was mainly due to the increase in number of staff and increase in rental expense of the new office following the expansion of the Target Group.

As set out in the table above, the Target Group recorded net profits of approximately HK\$1.1 million and HK\$0.9 million in 2014 and 2015 respectively, and a net loss of approximately HK\$31.5 million in 2016. As advised by the executive Directors, the loss in 2016 was mainly the result of the increase in administrative expenses and decrease in revenue as explained above and the executive Directors expect this to be a temporary phase. The executive Directors further advised us that the Target Group has completed several transactions in early 2017 relating to the underwriting of share offer under initial public offerings on the Stock Exchange and consultancy services of a debt issuance project.

As set out above, the Target Group was in its start-up stage in 2014. The Target Group, recorded significant increases in administrative expenses in 2015 and 2016 (mainly rental expenses and staff costs as a result of its expansion plan as described above in this letter), which lays the foundation for its future development.

*(b) Assets and liabilities*

The following is an extract of the financial information of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards as at 31 January 2017 as extracted from the audited financial statements of the Target Group as at 31 January 2017.

<b>LETTER FROM SOMERLEY CAPITAL</b>
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	As at 31 January 2017 HK\$'000
<b>NON-CURRENT ASSETS</b>	
Property, plant and equipment	5,159
Intangible assets	1,000
Statutory deposits	3,442
Rental deposits	3,231
Deferred tax assets	<u>110</u>
 Total non-current assets	 <u>12,942</u>
<b>CURRENT ASSETS</b>	
Accounts receivable	5,914
Other receivables	178
Cash and bank balances	<u>29,931</u>
 Total current assets	 <u>36,023</u>
<b>CURRENT LIABILITIES</b>	
Accounts payable	5,096
Other payables	306
Tax payable	<u>55</u>
 Total current liabilities	 <u>5,457</u>
 <b>NET ASSETS</b>	 <u><u>43,508</u></u>
<b>EQUITY</b>	
Share capital	76,468
Reserves	<u>(32,960)</u>
 Total equity	 <u><u>43,508</u></u>

As set out above, the key assets of the Target Group as at 31 January 2017 included cash and bank balances of approximately HK\$29.9 million, non-current deposits (including statutory deposits and rental deposits) of approximately HK\$6.7 million and accounts receivable of approximately HK\$5.9 million. Liabilities of the Target Group mainly comprise accounts payable of approximately HK\$5.1 million. The Target Group had net assets of approximately HK\$43.5 million as at 31 January 2017.

#### 4. Valuation of the Target Group

The consideration for the Sale Shares (i.e. the final bid price) has been determined after taking into account, among other things, the valuation of 100% of issued share capital of the Target as at 31 January 2017 of approximately HK\$80.0 million as assessed by the Independent Valuer as set out in the Independent Valuer's valuation report (the "**Valuation Report**"). The Valuation Report is contained in Appendix I to the Circular. In reviewing the Valuation Report, we have complied with the requirements under Rule 13.80(2)(b) Note 1(d) of the Listing Rules. In particular, we have discussed with the Independent Valuer its expertise and noted that the person signing the Valuation Report has about seven years of experience in business valuation for private and listed companies for the purpose inter alia of mergers and acquisitions. We also reviewed the Independent Valuer's terms of engagement and discussed with the Independent Valuer the work it has performed as regards the valuation.

We understand from the Independent Valuer that the valuation with respect to the fair value of 100% equity interest of the Target Group has been prepared in accordance with the International Valuation Standards (2013 Edition) on business valuation published by International Valuation Standards Council. We have discussed with the Independent Valuer its valuation methodologies and understand that the market approach was adopted. As advised by the Independent Valuer, the market approach is a common approach in valuing the fair value of equity interests similar to that of the Target Group. Under the market approach for this case, the value of the equity interest of the Target Group is determined based on the recent trading multiples of listed comparable companies. The trading prices could be expected to reflect the fundamentals and risk expectation of the businesses of companies engaging in a similar industry to the Target Group. We concur with the Independent Valuer that the market approach is commonly used and is the appropriate method for establishing the fair value of the equity interest of the Target Group in this case.

We have reviewed and discussed with the Independent Valuer the key bases and assumptions adopted for the valuation. A list of key information reviewed and major assumptions and considerations made by the Independent Valuer are set out in the Valuation Report. We understand from the Independent Valuer and note from the Valuation Report that the guideline public company method was applied when determining the valuation of the equity interest of the Target Group. When applying the guideline public company method, the Independent Valuer determined a pricing multiple (being the price to net book value (i.e. price to book ("P/B"))) for this case) for valuing the equity interest of the Target Group by computing the P/B for the guideline public companies. The pricing multiple was then applied to the Target Group to arrive at an estimate of value for the ownership interest adjusting for control premium and lack of marketability discount.

## LETTER FROM SOMERLEY CAPITAL

We understand from the Independent Valuer that it considers P/B an appropriate valuation multiple for financial businesses with significant assets on the books. Most of the assets of the Target Group are cash and bank balances and accounts receivable (which, in aggregate, represent approximately 73% of total assets as at 31 January 2017) which are the core assets of the Target Group's businesses. As regards the selection of guideline public companies for determining the pricing multiple, we have reviewed with the Independent Valuer its basis for selection, which include (a) companies listed on the Stock Exchange; (b) principal business operation of securities underwriting and consultancy, securities and futures brokerage and equity research; (c) holders of Type 1 (dealing in securities) licence under the SFO; and (d) principal business location in Hong Kong. Given that the Target Group is principally engaged in the securities underwriting and consultancy, securities and futures brokerage and equity research businesses and holds the necessary licences to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO, we consider that the Independent Valuer has a reasonable basis in selecting the guideline public companies. As set out in the Valuation Report, the recent trading price could reflect the fundamentals and risk expectation of engaging in similar business in the market despite such guideline public companies have different size of operation scale. As advised by the Independent Valuer, it is its common practice to make reference to the businesses of the target companies as primary criteria for selecting guideline public companies when adopting the guideline public company method in valuing the fair value of equity interests in a company.

We understand from the Independent Valuer and note from the Valuation Report that a control premium and a discount for lack of marketability have been incorporated in the valuation of the equity interest of the Target Group. We understand from the Independent Valuer that the control premium was adopted with reference to study by FactSet Mergerstat which is one of the world's major providers of financial information and analytical data for investment professionals. We have further discussed with the Independent Valuer and understand that the discount for lack of marketability was adopted with reference to the data in The FMV Restricted Stock Study which is a database that provides empirical support to quantify marketability discounts used in the business valuation, venture capital, and merger and acquisition professions. Given that the above studies were produced by global database providers, we consider that it is appropriate for the Independent Valuer to make reference to them in determining the control premium and discount for lack of marketability.

### 5. Comparable transactions

We have compared the P/B ratio of the Target Group to the P/B ratios of the Comparable Transactions (as defined below) by searching on Bloomberg and the website of the Stock Exchange on a best efforts basis for all the acquisitions and disposal (the "**Comparable Transactions**") of interests in private companies holding, among other things, licences to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and/or Type 4 (advising on securities)

## LETTER FROM SOMERLEY CAPITAL

activities under the SFO as announced (with sufficient details disclosed for calculating the P/B ratios) on the website of the Stock Exchange during the period from 1 July 2015 and up to the date immediately prior to the Latest Practicable Date by companies which (a) are listed on the Stock Exchange; and (b) are engaged in, among other things, securities underwriting and consultancy, securities and futures brokerage and equity research businesses based on their latest published financial statements on the website of the Stock Exchange. The table below illustrates the details of the Comparable Transactions:

Date of announcement	Company	Consideration <i>(HK\$)</i> <i>(Note 1)</i>	Net asset value of target company/ companies <i>(HK\$)</i> <i>(Note 1)</i>	P/B ratio <i>(Approximate times)</i> <i>(Note 2)</i>
21 August 2015	Universe International Financial Holdings Limited (Formerly known as Universe International Holdings Limited) (stock code: 1046)	73,000,000	36,480,000	2.00
21 September 2015	Lamtex Holdings Ltd. (Formerly known as China New Energy Power Group Limited) (stock code: 1041)	16,000,000	11,660,000	1.37
16 November 2015	China Environmental Energy Investment Limited (stock code: 986)	16,914,035	3,914,035	4.32
25 November 2015	Guoco Group Limited (stock code: 53)	441,100,000	N/A <i>(Note 3)</i>	1.8 <i>(Note 3)</i>
15 December 2015	Global Energy Resources International Group Limited (stock code: 8192)	20,070,000	11,270,000	1.78
15 June 2016	China Everbright Limited (stock code: 165) <i>(Note 4)</i>	930,000,000	1,298,900,000	1.46

## LETTER FROM SOMERLEY CAPITAL

Date of announcement	Company	Consideration (HK\$) (Note 1)	Net asset value of target company/ companies (HK\$) (Note 1)	P/B ratio (Approximate times) (Note 2)
24 June 2016	Universe International Financial Holdings Limited (Formerly known as Universe International Holdings Limited) (stock code: 1046)	30,000,000	14,000,000	2.14
	<b>Mean</b>			<b>2.12</b>
	<b>Maximum</b>			<b>4.32</b>
	<b>Minimum</b>			<b>1.37</b>
	<b>The Target Group (Note 5)</b>			<b>1.76</b>

*Notes:*

1. Figures are sourced from the relevant announcements.
2. The P/B ratios of the Comparable Transactions are calculated based on their respective consideration and net asset value as set out in the relevant announcements.
3. The P/B ratio is sourced from the relevant announcement of Guoco Group Limited dated 25 November 2015 which did not contain any details on the net asset value of the target companies.
4. As set out in the relevant announcement of China Everbright Limited dated 15 June 2016, only 49% of interests in the target company was sold to the purchaser. The P/B ratio is calculated based on the consideration and 49% of the net asset value of the target company (i.e. approximately HK\$636.5 million).
5. The implied P/B ratio of the Target Group is calculated based on the consideration for the Sale Shares of HK\$76,467,600 and the consolidated net assets value of the Target Group of approximately HK\$43.5 million as at 31 January 2017.

As set out in the table above, the P/B ratios of the Comparable Transactions range from approximately 1.37 times to approximately 4.32 times, with an average of approximately 2.12 times. The implied P/B ratio of the Target Group as discussed above of approximately 1.76 times is within the range and below the mean of the P/B ratios of the Comparable Transactions.

**6. Evaluation of the consideration for the Acquisition**

As set out in the sub-section headed “Basis of consideration” under the section headed “Reasons for and benefits of the Acquisition and basis of determining the consideration” in the “Letter from the Board” contained in the Circular, the consideration for the Sale Shares (i.e. the final bid price submitted by the Company at the online bidding session) has been determined after taking into account, (i) the valuation of 100% of issued share capital of the Target as at 31 January 2017 of approximately HK\$80.0 million as assessed by the Independent Valuer; (ii) the business plan and future prospects of the Target Group; and (iii) the potential synergies which may be created with the Group’s existing corporate financial advisory business. In assessing the fairness of the consideration, we consider it is appropriate to refer to the independent valuation conducted by the Independent Valuer in respect of the equity interest of the Target Group. We consider that the methodologies adopted by the Independent Valuer for the valuation of equity interest of the Target Group are appropriate. The valuation of 100% of issued share capital of the Target assessed by the Independent Valuer of approximately HK\$80.0 million is slightly higher than the consideration for the Sale Shares of approximately HK\$76.5 million. In addition, as set out in the sub-section headed “Comparable transactions” of this letter above, the implied P/B ratio of the Target Group as represented by the consideration of approximately 1.76 times is within the range and below the mean of the Comparable Transactions. Although the Target Group recorded a loss for the year ended 31 December 2016, having considered, among other things, (a) the valuation of 100% of issued share capital of the Target, details of which are set out in the sub-section headed “Valuation of the Target Group” of this letter above, is slightly higher than the consideration for the Sale Shares; (b) the loss in 2016 was mainly due to expansion plan of the Target Group which lays the foundation of its future development; (c) the business plans and prospects of the Target Group and the potential synergies to be created from the Acquisition as set out in the sub-section headed “Background to and reasons for the Agreement” of this letter above; and (d) the implied P/B ratio of the Target Group as represented by the consideration is within the range and below the mean of the Comparable Transactions, of which we note that 3 out of 6 (except for one with no details disclosed in the relevant announcement) of the target companies involved recorded net losses for the latest full year as set out in the relevant announcements of the Comparable Transactions, we consider the consideration for the Sale Shares of approximately HK\$76.5 million to be fair and reasonable so far as the Independent Shareholders are concerned.

**7. Financial effects on the Group**

The consideration for the Acquisition will be payable by the Company in cash to the Vendor at Completion and will be funded by internal resources of the Group, shareholder's loan, bank borrowings or a combination of the above. Upon Completion, each of the Target Company and its subsidiaries will become subsidiaries of the Company and their financial results will be consolidated in the financial statements of the Group. The executive Directors consider that the Group's revenue will be benefited from the Acquisition through carrying out of businesses in securities underwriting and consultancy, securities and futures brokerage and equity research businesses by the Target Group.

**DISCUSSION**

The Target Group is principally engaged in securities underwriting and consultancy, securities and futures brokerage and equity research businesses and holds the licences to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO respectively and a money lender's licence under the Money Lenders Ordinance. The Group acquired WAG Worldsec in 2016 and since then commenced providing corporate finance and securities advisory services. The executive Directors consider that the Acquisition will allow the Group to have instant access to a readily available financial business platform which is complementary to the existing business of the Group and synergies will be created in the Enlarged Group upon Completion. As set out in this letter above, having considered, among other things, the businesses of the Group and its development strategy, recent development and future development plans of the Target Group, qualifications and experience of management of the Target Group and the Group, and the prospects of the Target Group's industry, we concur with the executive Directors that long-term prospects of the Enlarged Group seem encouraging despite competitive challenges, and the Acquisition will strengthen the Group's business presence in the financial services industry and is line with its development strategy. The Target Group recorded significant increases in administrative expenses in 2015 and 2016 mainly as a result of its expansion plan, which lays the foundation of its future development.

The consideration of approximately HK\$76.5 million was equal to the final bid price submitted by the Company at the online bidding session which was determined based on various factors, including the valuation of 100% of issued share capital in the Target as at 31 January 2017 as appraised by the Independent Valuer based on the market approach. We have discussed with the Independent Valuer its work and are satisfied that its report could provide a reasonable basis for valuation of the Target Group. The valuation of 100% of issued share capital of the Target assessed by the Independent Valuer of approximately HK\$80.0 million is slightly higher than the consideration for the Sale Shares of approximately HK\$76.5 million. As set out in the sub-section headed "Comparable transactions" of this letter above, the implied P/B ratio of the Target Group as represented by the consideration is within the range and below the mean of the Comparable Transactions.

## LETTER FROM SOMERLEY CAPITAL

The consideration for the Acquisition will be payable by the Company in cash to the Vendor at Completion and will be funded by internal resources of the Group, shareholder's loan, bank borrowings or a combination of the above. The Acquisition will enhance the Group's revenue base by, among other things, expanding the scope of the financial services it offers.

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons including those summarised in the section headed "Discussion" above, we consider that (1) the Acquisition, though not in the ordinary and usual course of business of the Group, is in line with the business strategy of the Group; (2) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (3) the Acquisition is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Stephanie Chow**  
*Director*

*Ms. Stephanie Chow is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over seven years' experience in the corporate finance industry.*

*The English translations of the Chinese names are included in this letter for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese names prevail.*

*The following is the text of the valuation report prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent valuer, in connection with its valuation as at 31 January 2017 of the 100% equity interests in the Target.*

**GREATER CHINA APPRAISAL LIMITED**  
漢華評值有限公司

Room 2703, 27th Floor,  
Shui On Centre,  
6-8 Harbour Road,  
Wanchai, Hong Kong

28 April 2017

iOne Holdings Limited  
Room 3605, 36/F  
Cheung Kong Center  
2 Queen's Road Central  
Central, Hong Kong

Attn: The Board of Directors

Dear Sir/Madam,

**Valuation of 100% Equity Interest in  
Huajin Financial (International) Holdings Limited and its Subsidiaries**

In accordance with the instructions from iOne Holdings Limited (the "Company"), we were engaged to perform a valuation analysis in relation to the fair value of 100% equity interest (the "Equity Interest") in Huajin Financial (International) Holdings Limited (the "Target") and its subsidiaries (collectively referred to as the "Target Group") as at 31 January 2017 (the "Valuation Date").

It is our understanding that our analysis will be used by the management of the Company in their determination of the value of the Equity Interest for transaction reference purpose. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purpose without our express written consent. The standard of value is fair value; whilst the premise of value is going concern.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

The accompanying report presents the data, assumptions, and methodologies employed in developing our conclusion. Our report and analysis are in conformance with Hong Kong Financial Reporting Standards ("HKFRSs"), issued by Hong Kong Institute of Certified Public Accountants.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

#### I. PURPOSE OF ENGAGEMENT

It is our understanding that our analysis will be used by the management of the Company solely for transaction reference purpose.

#### II. SCOPE OF SERVICES

We were engaged by the management of the Company in evaluating the fair value of the Equity Interest as at the Valuation Date.

#### III. BASIS OF VALUATION

We have performed valuation of the Equity Interest on the basis of fair value. The opinion of value in the valuation will be on the basis of fair value which we would define as intended to mean *“the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties”*.

Our valuation has been prepared in accordance with the International Valuation Standards (2013 Edition) on business valuation published by International Valuation Standards Council. This standard contains guideline on the basis and valuation approaches used in business valuation.

#### IV. LEVEL OF VALUE

Valuation is a range concept and current valuation theories suggest that there are three basic “levels” of value applicable to a business or business interest. The levels of value are respectively:

- **Controlling interest:** the value of the controlling interest, always evaluate an enterprise as a whole;
- **As if freely tradable minority interest:** the value of a minority interest, lacking control, but enjoying the benefit of market liquidity; and
- **Non-marketable minority interest:** the value of a minority interest, lacking both control and market liquidity.

This valuation is primarily prepared on controlling interest basis.

## V. PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject in the manner that would generate the greatest return to the owner of the property. It takes account of what is physically possible, financially feasible and legally permissible. Premise of value includes the following:

- **Going concern:** appropriate when a business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;
- **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;
- **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation; and
- **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of selling the entire business.

This valuation is prepared on going concern basis.

## VI. SOURCES OF INFORMATION

Our analysis and conclusion of opinion of value were based on our discussions with the management of the Company, as well as our review of relevant documents, including but not limited to:

- Audited consolidated financial statements of the Target Group as at the Valuation Date;
- Unaudited consolidated financial statements of the Target Group for the year ended 31 December 2016;
- Audited consolidated financial statements of the Target Group for the year ended 31 December 2015;
- Audited financial statements of the Target for the years ended 31 December 2013 and 2014;
- Company introduction presentation of the Target Group; and
- A three-year business plan of the Target Group.

We also relied upon publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and the news.

## VII. COMPANY OVERVIEW

### **iOne Holdings Limited (the “Company”)**

The Company is a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited (982.HK). The Company acts as an investment holding company. As at the Valuation Date, the Company and its subsidiaries are principally engaged in the provision of financial printing services, investment holding and corporate financial advisory services in Hong Kong.

### **Huajin Financial (International) Holdings Limited (the “Target”)**

The Target was incorporated in Hong Kong since 5 June 2013. The principal activities of the Target are investment holding and provision of investment consulting services. It serves as a hub with Zhuhai City, Hengqin New Area and International capital market, assisting companies in the PRC to explore financing means in the international capital market. As at the Valuation Date, the Target Group is principally engaged in securities underwriting and consultancy, securities and futures brokerage and equity research businesses. The Target Group is licensed for Type 1, Type 2 and Type 4 regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) in Hong Kong. The Target Group also holds the Money Lender’s License under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). Per discussion with the management of the Target Group, the Target Group has developed its margin financing services this year.

## VIII. ECONOMIC OVERVIEW

In conjunction with the preparation of the valuation, we have reviewed and analysed the current economic condition of Hong Kong where the profits of the Target Group are derived, and how the value of the Equity Interest may be impacted.

### **1. Gross Domestic Product**

Hong Kong, a global free port and financial hub, continues to thrive on the free flow of goods, services and capital. As an economic and financial gateway to China, and with an efficient regulatory framework, low and simple taxation, sophisticated capital market and excellent telecommunications, Hong Kong continues to offer the most convenient platform for international companies doing business on the mainland.

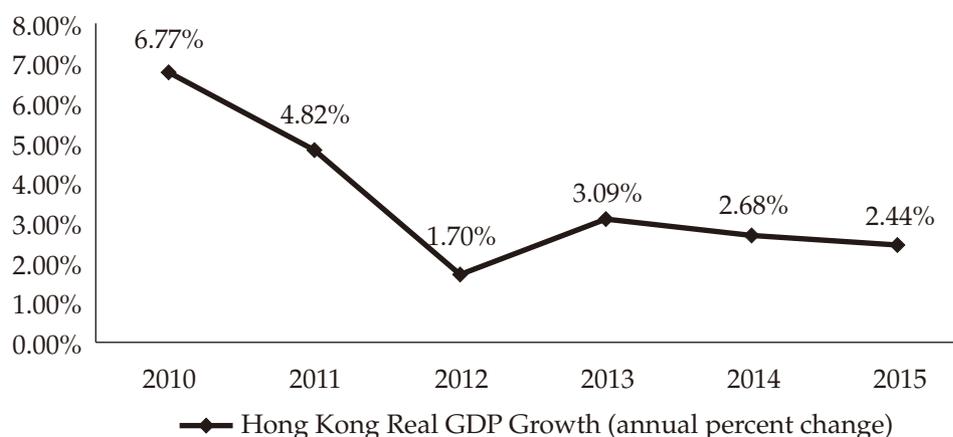
As of 2016, the territory continues to become the world’s freest economy and the world’s most services-oriented economy, with services sector contributing for more than 90% of Hong Kong’s gross domestic product (“GDP”).

Hong Kong's economy achieved moderate growth in 2016 with the resilient domestic demand. Per Hong Kong Trade Development Council ("HKTDCC"), Hong Kong's economy expanded by 1.4% year-on-year in real terms in the first three quarters of 2016, after growing by 2.4% in 2015. According to the World Economic Outlook Database published by International Monetary Fund ("IMF") in October 2016, the real GDP of Hong Kong has increased by 2.68% and 2.44% in 2014 and 2015 respectively after the gradual recovery from the global financial tsunami in 2008 and the euro debt crisis in recent years.

Hong Kong's economic growth in 2017 is expected to remain moderate but subject to the risks relating to slower economic growth prospects in China, uncertainties arising from Brexit and slow economic recovery in the Eurozone and Japan.

The following graph and table illustrate the real growth of GDP in Hong Kong from 2010 to 2015 and the forecast from 2016 to 2021 respectively.

**Figure 8 – 1 Summary of Real GDP Growth (%) in Hong Kong from 2010 to 2015**



Source: World Economic Outlook Database, October 2016, IMF

**Table 8 – 1 Forecast of Real GDP Growth (%) in Hong Kong from 2016 to 2021**

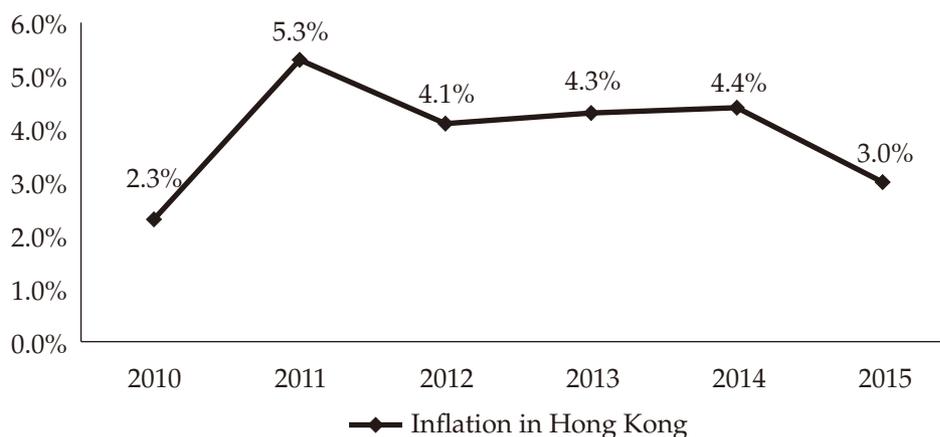
	2016F	2017F	2018F	2019F	2020F	2021F
Real GDP Annual Growth Rate	1.44%	1.85%	2.81%	3.22%	3.08%	2.94%

Source: World Economic Outlook Database, October 2016, IMF

## 2. Inflation Rate

Inflation continued to ease. Housing rentals continued its downtrend since late 2015. According to Hong Kong Monetary Authority (“HKMA”), in 2016, the year-on-year rate of change of the underlying composite consumer price index (“CCPI”) slowed from 2.8% in the first quarter to 2.3% in the second quarter, and eased further to 2.0% in July. Retail sales have weakened recently dragged by the visible decline in tourist arrivals, and rental pressure is less than that in previous years. The annual inflation rate for 2016 is likely to be lower than that of 2015. According to the World Economic Outlook Database published by IMF, the inflation rate for 2016 is estimated to drop to 2.5%. The following graph and table illustrate the inflation trend in Hong Kong from 2010 to 2015 and the inflation forecast in Hong Kong respectively.

**Figure 8 – 2 Summary of Inflation Rate in Hong Kong from 2010 to 2015**



Source: World Economic Outlook Database, October 2016, IMF

**Table 8 – 2 Forecast of Inflation Rate (%) in Hong Kong from 2016 to 2021**

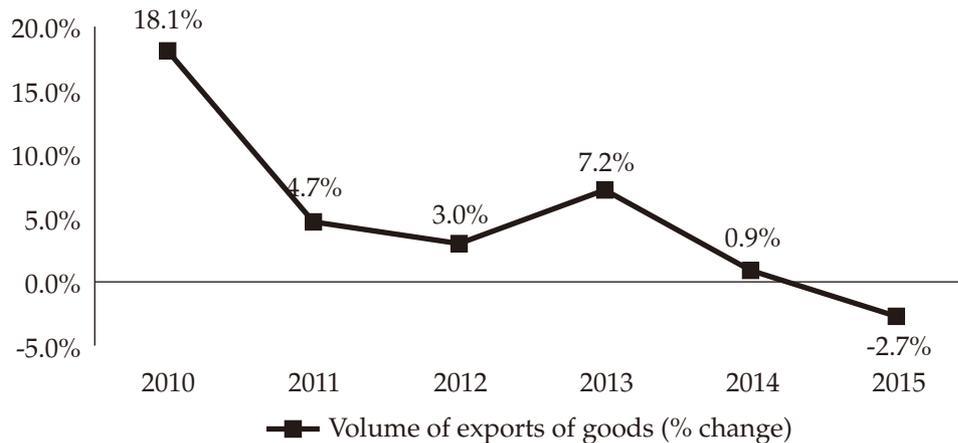
	2016F	2017F	2018F	2019F	2020F	2021F
Inflation (% change in average consumer prices)	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%

Source: World Economic Outlook Database, October 2016, IMF

### 3. Export Performance

Hong Kong exporters' confidence dropped to its lowest level in the past two years. According to HKTDC, Hong Kong's merchandise exports fell 0.5% year-on-year in 2016, after dropping by 1.8% in 2015. For 2017, Hong Kong's exports are not expected to fare much better than in 2016, with value sales expected to show zero growth. The rising trade tension triggered by US president-elect Donald Trump's promised protectionist policies, possible shocks in the EU and Japan, untamed volatility of capital markets, a marked slowdown of the Chinese economy, and escalated geopolitical tensions pose the major downside risks to exports. On the supply side, Hong Kong exporters have to live with a challenging production environment on the mainland China, especially in the Pearl River Delta, which include the rising input costs. The following graph illustrates the growth in the volume of exports in Hong Kong from 2010 to 2015:

**Figure 8 – 3 Summary of Export Growth (%) in Hong Kong from 2010 to 2015**



Source: World Economic Outlook Database, October 2016, IMF

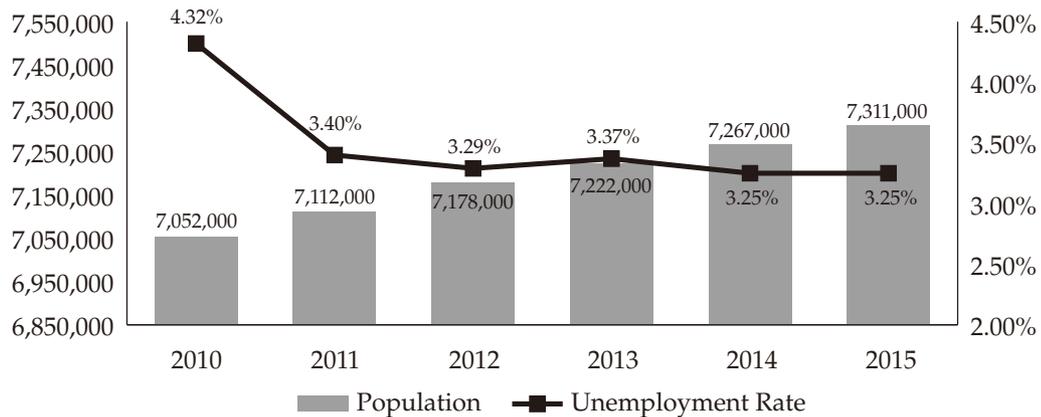
Trading and logistics, tourism, financial services, and professional services and other producer services account for approximately 60% of GDP in total. In accordance with the 2015 Policy Address, in order to broaden the long term economic development and develop a more balanced Hong Kong economic structure, Hong Kong government has been offering more incentives to develop six new industries; namely, education, medical services, testing and certification services, environmental industry, cultural & creative industries and innovation and technology industry, according to the information released by HKTDC.

Major export market of Hong Kong are Chinese mainland, the European Union, the United States, ASEAN and Japan, which accounts for approximately 54%, 9%, 9%, 7% and 3% of total exports in 2016 respectively. According to the information released by HKTDC, Hong Kong was ranked the 7th in the world's largest trading economy and the 14th in the world's largest exporter of commercial services.

#### 4. Population and Unemployment Rate

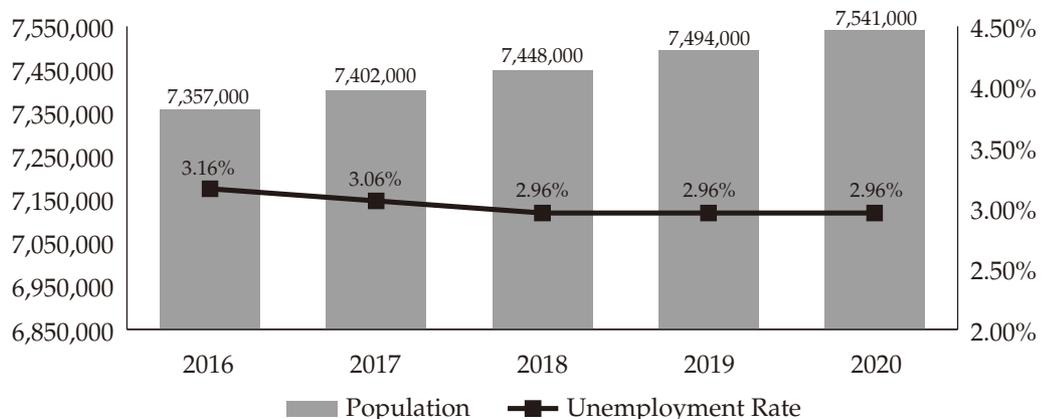
The population in Hong Kong has been increasing steadily from 7.05 million in 2010 to 7.31 million in 2015, while unemployment rate has dropped from 4.3% in 2010 to 3.2% in 2015. The population is estimated to reach 7.58 million in 2021 and the unemployment rate in the long run would stay below 3%. The following graphs show the population and unemployment trend in Hong Kong from 2010 to 2015 and the forecast from 2016 to 2020 respectively:

**Figure 8 – 4 Summary of Population and Unemployment Rate in Hong Kong from 2010 to 2015**



Source: World Economic Outlook Database, October 2016, IMF

**Figure 8 – 5 Forecast of Population and Unemployment Rate in Hong Kong from 2016 to 2020**



Source: World Economic Outlook Database, October 2016, IMF

## 5. Budget and Government Initiatives

The 2016-17 Budget laid out supportive taxation measures to promote long term development of Hong Kong and strengthen its position as an international business hub. The government aims at 1) taking tax and short-term relief measures to stimulate the consumption and sustain employment; 2) establishing the Future Fund as part of long term investment strategy; 3) launching Pilot Technology Voucher Programme to subsidise small and medium enterprises' ("SMEs") use of technological services and solutions and 4) providing training subsidies for financial professionals.

The 2017 Policy Address highlighted that the Hong Kong Government will focus to achieve the following targets:

- Explore further with the Mainland the expansion and enhancement of CEPA in investment, economic and technical co-operation, etc. with a view to achieving results by mid-2017;
- Continue to co-operate closely with the Guangdong Provincial Government under the Guangdong-Hong Kong co-operation mechanism to better seize new opportunities for Hong Kong in the Guangdong-Hong Kong in-depth co-operation zone in Nansha;
- Actively consider the recommendations on the sustainable development of Hong Kong's financial market and financial services sector by the Financial Services Development Council concerning taxation, laws and regulations, nurturing talent, etc., and take forward the feasible measures. Invite the HKTDC to strengthen the promotion of our financial services industry outside Hong Kong;
- Strengthen Hong Kong's status as a global offshore Renminbi business hub, taking advantage of the demand arising from the Belt and Road Initiative and the Mainland-Hong Kong Mutual Recognition of Funds Arrangement; and
- Strive to complete by mid-2017 the procedures for Hong Kong joining the Asian Infrastructure Investment Bank.

## IX. INDUSTRY OVERVIEW

The Target Group is involved in the businesses of securities underwriting and consultancy, securities and futures brokerage and equity research in Hong Kong.

### 1. Securities Industry

Hong Kong has one of the most active and liquid securities markets in the world. There is neither control over capital movements nor capital gains or dividend income tax. As at the end of 2016, Hong Kong's stock market was the fourth largest in Asia and eighth largest in the world in terms of market capitalization. There were 1,973 companies listed on Hong Kong Exchange ("HKEx"), with a total market capitalization of more than USD 3.19 trillion<sup>1</sup>. Besides, Hong Kong is also one of the world's most active markets for initial public offerings ("IPO"), with 126 companies newly listed in HKEx and USD 25.2 billion raised in 2016<sup>2</sup>.

Trading services of the securities industry in Hong Kong are provided by investment banks, commercial banks, finance companies and securities brokerage companies. Investment banks are the principal underwriters for IPO. Hong Kong's highly liberal and liquid securities market has attracted many international investment banks and securities houses to build their presence here, eyeing the IPO and securities businesses. In the secondary market, local retail customers are served mainly by local brokers and banks, whereas institutional buyers are principally served by the international brokers and investment banks.

**Table 9 – 1 Number of SFC RA1 (Dealing in Securities) Holders  
in Hong Kong from 2010 to 2016**

Year	Number of Regulated Activities of Licensed Corporations <sup>3</sup>	Number of Regulated Activities of Registered Institutions	Number of Regulated Activities of Licensed Representatives
2010	836	108	24,821
2011	882	109	25,477
2012	934	117	24,815
2013	957	120	24,517
2014	973	117	24,656
2015	1,024	118	25,765
2016	1,129	121	25,866

Source: Securities and Futures Commission

<sup>1</sup> SFC: Market Capitalization of the World's Top Stock Exchanges (as at end December 2016)

<sup>2</sup> Source: HKEx Statistics, <http://www.hkex.com.hk/eng/stat/statrpt/factbook/factbook2016/Documents/01.pdf>

<sup>3</sup> According to SFC, LC includes licensed corporations, deemed licensed corporations and temporary licensed corporations.

Investors in Hong Kong securities market are well-diversified. As per a survey conducted by HKEx during 2014/15, overseas investors accounted for 39% of total market turnover value while local investor contributed 39%. Institutional and retail investors took up 51% and 27% of the market turnover value respectively.

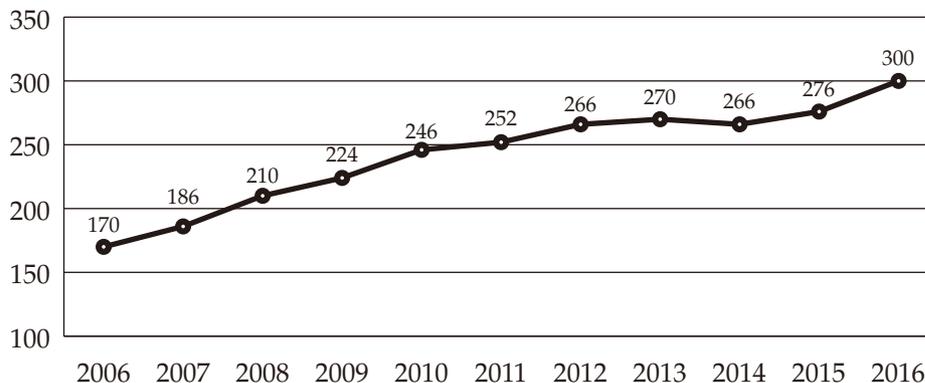
The Shanghai-Hong Kong Stock Connect was launched in November 2014, allowing investors to access eligible Shanghai-listed shares through the HKEx (i.e. northbound trading) and eligible Hong Kong-listed shares through the Shanghai Stock Exchange (i.e. southbound trading). Currently, the respective daily quota for northbound and southbound trading are set at RMB13 billion and RMB10.5 billion. A similar trading scheme with Shenzhen is also launched in December 2016. Shenzhen Connect provides more access, more flexibility, more products, and more opportunities. It gives international and Hong Kong investors access to more A share stocks and more sectors, such as technology and healthcare companies listed on the Shenzhen Exchange and ChiNext. With 880 new stocks included as part of the link, most companies traded in Mainland China can now be accessed directly by foreign investors for the first time. Mainland investors now have more choice too, with 100 small cap stocks listed in Hong Kong now eligible for Shenzhen Connect, which will likely bring new energy to Hong Kong over time.

HKEx has introduced two models to facilitate the listing and trading of RMB-denominated securities, namely Single Tranche Single Counter (“STSC”) and Dual Tranche Dual Counter (“DTDC”). STSC is the traditional model where the IPO of the stock will result in shares being traded in a single RMB counter in the secondary market. On the other hand, DTDC comprises separate but simultaneous offer and subsequent listing of shares in RMB and HKD by the same issuer, while shares of the two counters are of the same class and freely convertible. In September 2011, HKEx released guidelines on RMB-denominated follow-on offerings to enable listed companies to raise RMB funds by share placements and rights issues or open offers.

## 2. Futures Market

The futures markets provide partial income risk insurance to producers whose output is risky, but very effective insurance to commodity stockholders at remarkably low cost. Speculators absorb some of the risk but hedging appears to drive most commodity markets<sup>4</sup>. As an important part of the capital markets, the futures market in Hong Kong also developed quickly in the past few years and the trading volume is keeping growing. In June 2015, the Securities and Futures Commission (“SFC”) approved HKEx’s introduction of stock index futures contracts for seven sectors including software, mainland banks and properties, and thereafter approved HKEx’s metal mini futures contracts on nickel, tin, which commenced trading in December 2015. This initiative enriches the commodity product mix in Hong Kong and facilitates trading and hedging activities in the Asian time zone. In August 2015, the SFC provided corporations licensed for Type 2 regulated activity (dealing in futures contracts) with information about seeking exemptions under a March 2015 Commodity Futures Trading Commission (“CFTC”) order permitting SFC-licensed corporations to deal directly with the US customers without having to register as futures brokers in the US. Four corporations have now been exempted pursuant to the order.

**Figure 9 – 1 Number of SFC Type 2 Regulated Activities (Dealing in Futures Contracts) Holders (Licenced Corporations) in Hong Kong, 2006-2016**



Source: Securities and Futures Commission

<sup>4</sup> Source: Wikipedia, [https://en.wikipedia.org/wiki/Futures\\_exchange](https://en.wikipedia.org/wiki/Futures_exchange)

According to the statistics by SFC, in 2016, the average daily trading volume in futures products rose by 14.5%. Among of which HSI futures and HSCEI futures were the most actively traded contracts, each accounting for about 38.4% and 39.3% of all futures trading respectively. The average daily trading volume of HSI futures rose by 52.1%, but that of HSCEI futures fell by 1% from 2015.

**Table 9 – 2 Average Daily Trading Volume of Future Contracts Traded on HKEX by Product Type**

	2014	2015	2016
HSI Futures	69,098	85,991	130,826
Mini-HSI Futures	28,177	40,674	50,516
HSCEI Futures	89,005	135,139	133,729
Mini-HSCEI Futures	13,884	30,391	19,718
Stock Futures	1,731	2,951	915
RMB Currency Futures	830	1,062	2,181
Other futures products	1,238	1,210	2,601
Total Futures	203,965	297,418	340,486

*Remarks: The average daily trading volume was based on the number of trading days after the product was launched*

*Sources: HKEX and SFC Research*

Besides, during 2016, trading in HSI and HSCEI futures during the after-hours futures trading (“AHFT”) session was more active than in 2015. Trading in mini-HSI futures, mini-HSCEI futures, and renminbi currency futures was also more active. The average daily trading volume of HSI and HSCEI futures was 25,108 contracts, about 10.4% of the volume during the daytime session, compared to 14,088 contracts and 6.8% in 2015. The average daily volume of mini-HSI futures and mini-HSCEI futures was 12,286 contracts, about 21% of the volume during the daytime session, compared to 7,333 contracts and 11.4% in 2015. And the average daily volume of renminbi currency futures was 349 contracts, about 18.8% of the volume during the daytime session, compared to 135 contracts and 14.4% in 2015<sup>5</sup>.

Looking to the future, greater market integration lays the groundwork for Hong Kong to further develop as a centre for the management of the more complex China risks by developing derivatives, futures and other instruments which help manage direct and indirect financial or market exposure to Mainland investments. This is a natural evolution of Hong Kong’s traditional role as a place where the world interacts with a rapidly changing China.

<sup>5</sup> Source: SFC Research, <http://www.sfc.hk/web/EN/files/SOM/RS%20Paper/EN/RS%20paper%2060.pdf>

## X. VALUATION METHODOLOGY

The valuation of the any asset or business can be broadly classified into one of the three approaches, namely the asset approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value analysis of that asset.

### 1. Asset Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities.

Value is established based on the cost of reproducing or replacing the asset, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

### 2. Income Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the valuation date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

### 3. Market Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Value is established based on the principle of competition. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should be approximate to one another.

#### 4. Selection of Valuation Approach

##### 4.1 Asset approach – Rejected

Under the asset approach, the value of the Equity Interest is determined based on the replacement cost or reproduction cost rather than the ability to generate streams of benefits in the future. For the Target Group, future economic benefits will be generated from the Target Group's operation of its securities underwriting and consultancy, securities and futures brokerage and equity research businesses. As such, the asset approach cannot reliably reflect the value of the Equity Interest. Accordingly, the asset approach was rejected.

##### 4.2 Income approach – Rejected

Under the income approach, the value of the Equity Interest is determined based on the estimation of the projected inputs, such as projected revenue, operating costs and risk-adjusted discount rate. A major challenge to income approach is its sensitivity to model inputs, as slight deviation in discount rate and forecasted operating cash flows would result in significantly different valuation results. The management of the Target Group has provided a 3-year business plan. However, considering the uncertainty and dynamic nature of securities underwriting and consultancy, securities and futures brokerage and equity research businesses, it is difficult to apply reliable input estimates. In addition, per discussion with the management of the Target Group, the Target Group has developed its margin financing services this year. The planning in providing new services in the future would increase the uncertainty in the future cash flows. As such, the income approach was rejected.

##### 4.3 Market approach – Accepted

Under the Market Approach, the value of the Equity Interest could be determined based on the recent trading multiples of listed comparable companies. The recent trading prices could reflect the comparable target companies' fundamentals and risk expectation of the securities underwriting and consultancy, securities and futures brokerage and equity research businesses in Hong Kong despite of comparable companies having different size of scale of operation. As there were sufficient numbers of comparable public companies available in markets which facilitate a meaningful comparison, such method would be considered as appropriate and reliable.

**XI. GENERAL VALUATION ASSUMPTIONS**

A number of general assumptions have to be established in order to sufficiently support our conclusion of fair value. The general assumptions adopted in this valuation as of the Valuation Date were:

- There would be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in Hong Kong where the Target Group is carrying on its businesses;
- There would be no significant deviation in the industry trends and market conditions from the current market expectation;
- There would be no material change in interest rates or foreign currency exchange rates from those currently prevailing;
- There would be no major change in the current taxation law in Hong Kong where the Target Group and the comparable companies were operated;
- All relevant legal approvals, business certificates or licenses for the normal course of operation are formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application; and
- The Target Group will retain competent management, key personnel, and technical staff to support the ongoing business operations.

**XII. MARKET APPROACH****Guideline Public Company Method**

The premise behind the Guideline Public Company Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry.

In applying the Guideline Public Company Method, we compute a pricing multiple for various benefit streams for each guideline public company (the "Guideline Public Companies"). The appropriate valuation multiple is determined and adjusted for the unique aspects of the subject company being valued. This multiple is then applied to the subject company being valued to arrive at an estimate of value for the appropriate ownership interest. The selected valuation multiple is based on market capitalisation.

Equity value can be derived from the formula below:

Equity value = Guideline multiple x the corresponding item representing the financial performance or position of the subject company

A pricing multiple represents a ratio that uses a comparative company's market value at the Valuation Date as the numerator and a measure of the company's operating results (or financial position) as the denominator. In this valuation, one of the most preferable valuation multiples we have adopted is price-to-net book value ("P/NBV"). The P/NBV is an appropriate valuation multiple for capital-intensive businesses or financial businesses with plenty of assets on the books, given the fact that the net book value refers to the sum of a company's assets minus its liabilities and non-controlling interest.

For this valuation, since most of the assets of the Target Group are cash and cash equivalents and accounts receivables (which represents 73% of total assets as at the Valuation Date) which are the core assets of the securities underwriting and consultancy, securities and futures brokerage and equity research businesses, we consider that the NBV provides a meaningful measure for the valuation of the Equity Interest.

Once we have selected a number of the Guideline Public Companies and make the necessary adjustments to their financial information, the next step is to determine and compute the appropriate valuation multiples, and the calculation method is the same for all selected the Guideline Public Companies. The process of computing the valuation multiple in this valuation consists of the following procedures:

- Determination of the equity value for each Guideline Public Companies as at the Valuation Date. The equity value for each Guideline Public Companies, which is the market capitalization, is computed by multiplying their share prices to the number of outstanding shares as at the Valuation Date.
- Determination of the comparison measurement – i.e. NBV as at the Valuation Date. This measurement represents the denominator of the multiple.

The application of this method depends on the selection of the Guideline Public Companies that with sufficient similarities to the underlying business of the Target Group so as to provide a meaningful comparison. We exercised due care in the selection of the Guideline Public Companies by using reasonable criteria in deciding whether or not a particular Guideline Public Company is relevant. If the difference is so large such that no meaningful comparison can be made, we would then question the use of this method.

### Selection of Guideline Public Companies

In selecting the Guideline Public Companies, we considered the lines of business, products, market location of the business and other criteria of the Target Group. In particular, the specific attributes of the Guideline Public Companies we have considered were summarised as follows.

- Listed on the Stock Exchange of Hong Kong Limited (“Stock Exchange”);
- Principal business operation are securities underwriting and consultancy, securities and futures brokerage and equity research;
- Holders of Type 1 license granted by the SFC (“SFC License Type 1”); and
- Principal business location is Hong Kong.

Our preliminary list of Guideline Public Companies is generated from searching through Bloomberg and websites providing financial data for public companies. The major searching criteria are listed below:

- Listed on the Stock Exchange; and
- Significant revenue contribution from securities underwriting and consultancy, securities and futures brokerage and equity research in Hong Kong.

Then, we have investigated the principal of businesses, business location and asset location of each company from segment information generated by Bloomberg, its official website and its most recent annual report and interim report to ensure that the selected Guideline Public Companies have contains all the above mentioned attributes.

The following is the list of the Guideline Public Companies that we have reviewed in connection with the valuation of the Equity Interest:

**Table 12 – 1 Guideline Public Companies**

Guideline Public Companies	Ticker	Business Activities
1. Sunwah Kingsway Capital Holdings Ltd.	188 HK	<ul style="list-style-type: none"> <li>Invests in securities, stock and provides future brokerage, financial advisory services, asset and fund management, money lending and other securities related financial services</li> </ul>
2. Styland Holdings Ltd.	211 HK	<ul style="list-style-type: none"> <li>Deals securities and provides brokerage and financing services</li> </ul>
3. Shenwan Hongyuan HK Ltd.	218 HK	<ul style="list-style-type: none"> <li>Provides loan-financing, securities, futures and equity options trading and dealing, underwriting, and corporate advisory services</li> </ul>
4. Cash Financial Services Group Ltd.	510 HK	<ul style="list-style-type: none"> <li>Provides brokerage services for securities, options, futures and mutual funds</li> <li>provides margin financing, money lending, and corporate finance services</li> </ul>
5. South China Financial Co. Ltd.	619 HK	<ul style="list-style-type: none"> <li>Provides securities brokerage services, share margin financing, money lending, corporate advisory and underwriting services</li> </ul>
6. Haitong International Securities Group Ltd.	665 HK	<ul style="list-style-type: none"> <li>Provides brokerage and retail margin financing, corporate finance and investment management services</li> </ul>
7. Value Convergence Holdings Limited	821 HK	<ul style="list-style-type: none"> <li>Operates securities brokerage and corporate finance business</li> </ul>
8. Quam Ltd.	952 HK	<ul style="list-style-type: none"> <li>Provides financial services including financial advisory, securities broking, and margin financing</li> </ul>
9. Kingston Financial Group Ltd.	1031 HK	<ul style="list-style-type: none"> <li>Offers investment banking, securities trading, and financing services</li> </ul>

	<b>Guideline Public Companies</b>	<b>Ticker</b>	<b>Business Activities</b>
10.	Skyway Securities Group Ltd.	1141 HK	• Engaged in financing and securities investment businesses in Hong Kong
11.	Emperor Capital Group Ltd.	717 HK	• Provides brokerage services for securities, futures and options, margin and initial public offer financings, and loans and advances to its clients
12.	Bright Smart Securities and Commodities Group Ltd.	1428 HK	• Provision of financial services, including securities broking, margin financing, commodities and futures broking and bullion trading
13.	Get Nice Financial Group Ltd.	1469 HK	• Provides services including securities, futures, and options broking, securities margin financing, and corporate finance services
14.	Guotai Junan International Holdings Ltd.	1788 HK	• Provides securities and futures dealing and broking services for various financial markets, corporate finance and ECM services, asset and fund management services and financing services
15.	Orient Securities International Holdings Limited	8001 HK	• Provides brokerage services, underwriting, placement, margin financing and nominees services
16.	CL Group Holdings Limited	8098 HK	• Provides brokerage services to clients for trading in securities listed on the stock exchange

*Source:* Bloomberg; Companies' annual reports

We proceeded to look into the details of the Guideline Public Companies' business fundamentals to assess their comparability against the Target Group. The comparability analyses presented in the following pages have illustrated the similarities and differences in business attributes between the Guideline Public Companies and the Target Group.

Table 12 – 2 Comparison Between The Target Group and Guideline Public Companies As At The Valuation Date

	Stock Code	Relevant Segment (Note 1)	Segment Revenue as a % of Total Revenue (Note 2)	Online Trading Platform	Mobile Trading App	Establishments in Hong Kong (Note 3)	No. of Establishments in Hong Kong (Note 3)
1	188 HK	Brokerage	42.0%	Yes	Yes	Yes	1
2	211 HK	Financial Services (Note 4)	45.1% (Note 4)	Yes	Yes	Yes	2
3	218 HK	Securities dealing & broking	50.2%	Yes	Yes	Yes	6
4	510 HK	Financial Services (Note 5)	100.0%	Yes	Yes	Yes	4
5	619 HK	Broking	33.7%	Yes	Yes	Yes	7
		Margin financing and money lending	22.0%				
6	665 HK	Brokerage and margin financing	48.2%	Yes	Yes	Yes	11
7	821 HK	Brokerage	89.4%	Yes	No	No	1
8	952 HK	Securities broking	79.7%	Yes	Yes	Yes	1
9	1031 HK	Margin and initial public offering financing	64.8%	Yes	Yes	Yes	1
		Securities brokerage, underwriting and placements	10.9%				
10	1141 HK	Provision of brokerage and related services	98.0%	Yes	Yes	Yes	2
11	717 HK	Financing (Note 6)	78.4%	Yes	Yes	Yes	12
		Broking	11.1%				
12	1428 HK	Securities broking	66.5%	Yes	Yes	Yes	20
13	1469 HK	Securities margin financing	67.0%	Yes	Yes	Yes	1
		Broking	32.4%				
14	1788 HK	Interest income (Note 7)	53.1%	Yes	Yes	Yes	1
		Brokerage	22.5%				
15	8001 HK	Brokerage	40.7%	Yes	Yes	Yes	1
		Underwriting and placing	6.7%				
		Financing (Note 8)	18.2%				
16	8098 HK	Securities and futures broking	34.2%	Yes	Yes (Note 9)	Yes	1
		Placing and underwriting	28.5%				
	Target Group	Securities underwriting and consultancy, securities and futures brokerage and equity research	100% (Note 10)	Yes	Yes	Yes	1

*Note 1: Source: Bloomberg*

*Note 2: Source: Bloomberg*

*Note 3: Includes headquarter, offices and branches*

*Note 4: Represents securities dealing, brokerage, margin financing, corporate finance, asset management and other financing services; Source: Company's annual report FY2015/2016*

*Note 5: Represents commission income for broking business, underwriting commission income, sub-underwriting income and placing commission, advisory and other fee income, and interest income from client; Source: Company's annual report FY2015*

*Note 6: Represents commercial and personal lending as well as margin and initial public offering financing; Source: Company's annual report FY2015/2016*

*Note 7: Represents provision of margin financing and securities borrowing and lending to margin customers, initial public offering loans, other loans to customers and bank deposits; Source: Company's annual report FY2015*

*Note 8: Represents provision of securities and initial public offering financing services; Source: Company's annual report FY2015*

*Note 9: Through SP Trader*

*Note 10: Per management of the Target Group*

We believed that the selected listed companies were sufficiently comparable to the operations of the Target Group and gave a meaningful comparison. These companies were selected as Guideline Public Companies because they are engaged in securities underwriting and consultancy, securities and futures brokerage and equity research business in Hong Kong, and such lines of business were comparable to those of the Target Group. Also, around half of the Guideline Public Companies have only one or two establishments in Hong Kong and have developed the online trading platform and mobile trading apps for their clients to place securities and futures transactions, implying that the way of conducting businesses by the Guideline Public Companies is very similar to the Target Group.

Details of the calculation of valuation multiples for the Guideline Public Companies were as follows:

**Table 12 – 4 P/NBV for the Guideline Public Companies as at the Valuation Date**

	<b>Ticker</b>	<b>Market Capitalisation (in HKD millions)</b>	<b>Net Book Value (in HKD millions)</b>	<b>P/NBV</b>
1.	188 HK	773	941	0.82x
2.	211 HK	938	573	1.64x
3.	218 HK	2,747	2,055	1.34x
4.	510 HK	1,964	563	3.49x
5.	619 HK	1,131	653	1.73x
6.	665 HK	23,321	21,217	1.10x
7.	821 HK	1,014	615	1.65x
8.	952 HK	2,076	605	3.43x
9.	1031 HK	46,834	18,811	2.49x
10.	1141 HK	3,181	1,945	1.64x
11.	717 HK	4,786	4,250	1.13x
12.	1428 HK	4,531	2,072	2.19x
13.	1469 HK	2,350	1,522	1.54x
14.	1788 HK	17,831	8,175	2.18x
15.	8001 HK	310	274	1.13x
16.	8098 HK	517	231	2.24x
	Average			1.86x

Source: Bloomberg

**Table 12 – 5 Summary of the Selected Multiples**

<b>Valuation Date</b>	<b>Selected Multiple</b>	<b>Average</b>
As at 31 January 2017	P/NBV	1.86x

We have further cross-checked the P/NBV of 1.86x to the results derived from Guideline Merger and Acquisition (“GMA”) Method.

**Guideline Merger and Acquisition (“GMA”) Method**

Under GMA, the fair value is derived from the acquisition prices at which business similar to that of the Target Group was exchanged. GMA provides an indication of value by comparing the prices at which business of similar assets (business nature and risk assumed) are being exchanged between independent and informed willing buyers and sellers. Similar to GPTC method, when GMA is applied, an indicative price multiple is derived by referring to the consideration transferred in comparable acquisitions. Application of GMA is subject to the following requirements:

- Existence of historical (and recent) comparable transactions;
- Availability of public information on comparable transactions; and
- Arm’s length transactions between the independent uncontrolled parties.

Under GMA Method, we have identified 5 potentially comparable GMA targets that have recently been acquired. These comparable GMA targets have shared similar attributes with the Target Group. In particular, the specific attributes of the comparable GMA targets we have considered were summarised as follows.

Specific attributes of the 5 potentially comparable GMA targets:

- Targets are licensed for SFC Type 1 regulated activity;
- Targets being acquired during 2015 to 2016; and
- Targets with transaction information announced.

The identified 5 comparable GMA targets had been acquired within two years from the Valuation Date. The following list has showed the comparable GMA targets we have reviewed in connection with the valuation of the Target Group.

**Table 12 – 6 Guideline Merger and Acquisition Transactions**

	<b>Date</b>	<b>Security Companies</b>	<b>Description</b>
1	June 2015	Sun Hung Kai Financial Group Limited	<ul style="list-style-type: none"> <li>Carries out businesses wealth management and brokerage and capital markets segment</li> </ul>
2	November 2015	Win Fung Securities Limited	<ul style="list-style-type: none"> <li>Provides brokerage services and securities margin financing services</li> </ul>
3	September 2015	YGD Securities (HK) Limited	<ul style="list-style-type: none"> <li>Provides securities brokerage services</li> </ul>
4	April 2016	J.A.F Brokerage Limited	<ul style="list-style-type: none"> <li>Provides securities brokerage services</li> </ul>
5	July 2016	Hing Lee Securities Limited	<ul style="list-style-type: none"> <li>Provides brokerage services and securities margin financing services</li> </ul>

Once we have identified a number of potential GMA targets and made necessary fundamental search on their backgrounds, we proceeded to determine and compute the appropriate valuation multiple. P/NBV was determined to be the appropriate valuation multiple for this valuation.

The valuation multiples were determined from dividing the implied valuation of the GMA targets in the transactions, by their announced net asset value. These P/NBV multiples could then potentially be applied to the subject valuation. The following list has shown our computation of the P/NBV multiples based on the available public data.

**Table 12 – 7 P/NBV and Details for the Comparable GMA Targets as at Transaction Dates**

#	Subject Companies	SFC Licenses Hold	Valuation (HKD)	Net Assets Value (HKD)	P/NBV	Completion Date
1	Sun Hung Kai Financial Group Limited	1, 2, 3, 4 & 6	5,850,000,000	2,805,400,000	2.09x	June 2015
2	Win Fung Securities Limited	1 & 4	73,000,000	36,468,000	2.00x	November 2015
3	YGD Securities (HK) Limited	1	22,656,000	13,656,000	1.66x	September 2015
4	J.A.F Brokerage Limited	1	13,077,000	5,277,000	2.48x	April 2016
5	Hing Lee Securities Limited	1	20,070,000	11,270,000	1.78x	July 2016
	Average				2.00x	

Since more than half of the completion dates of GMA transactions were one year earlier than the Valuation Date, we determined the results from GMA Method are used for cross-checking purposes only. The P/NBV of 1.86x derived from Guideline Public Companies Method lies within the range of the results (1.66x to 2.48x) derived from GMA Method.

#### Determination of Value

Based on the investigation and analysis stated above and on the valuation method employed, it was our opinion that the fair value of the Equity Interest as at the Valuation Date was as follows:

**Table 12 – 8 Equity Interest in the Target Group as at the Valuation Date**

		P/NBV
Selected Multiple (rounded)		1.858x
Subject Financial Performance:		
Net Book Value as at the Valuation Date	HKD' 000	<u>43,508</u>
Implied Equity Value before Control Premium	HKD' 000	80,854
Control Premium ( <i>Note 1</i> )	10%	<u>8,085</u>
Implied Equity Value before DLOM	HKD' 000	88,940
Less: DLOM ( <i>Note 2</i> )	-10%	<u>(8,894)</u>
Implied 100% Equity Value after DLOM	HKD'000	<u>80,046</u>
Fair value of 100% Equity Interest in the Target Group (rounded)	HKD	<u><u>80,046,000</u></u>

\* Products of the figures and sum of the figures may equal to the total of the figures due to rounding

*Note 1: Please refer to Section XIII. Control Premium for detailed discussion*

*Note 2: Please refer to Section XIV. Discount for Lack of Marketability for detailed discussion*

### XIII. CONTROL PREMIUM

Premium for control is generally regarded as the amount in excess of the current traded market price that a buyer is willing to pay to acquire the control of a publicly traded company. A buyer is willing to pay a premium for control when obtaining the controlling advantages they would not receive if only a minority interest was purchased.

Estimating the value of premium for control is necessary when valuing large blocks of shares. The size of the premium for control varies from industry to industry, with the size of the company. In our valuation analysis, the equity interest in the subject companies is at controlling, so it is reasonable to apply a premium for control to reflect this advantage. With reference to the comparison of the average percent premium offered for a controlling equity interest (acquisitions of more than 50% of a company's shares outstanding) to that for a minority equity interest (purchases of 10% – 50%) during 2010 to 2015 stated in FactSet Mergerstat Review, 2015 and 2016<sup>6</sup>, we believe a premium for control of 10% is fair and reasonable for the valuation of the Equity Interest.

### XIV. DISCOUNT FOR LACK OF MARKETABILITY

DLOM is the valuation adjustment with the largest single monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In selecting the appropriate DLOM, we considered the length of time and effort required by the management in order to sell a controlling interest. This typically would take at least three to nine months if a transaction could be consummated at all. A controlling interest does enjoy the benefit of controlling the cash flow stream of the business. Lastly, we considered the expenses that are typically incurred to sell a business which are substantial such as legal fees, accounting fees and intermediary fees.

As the Equity Interest is on a non-marketable controlling basis, prudent investors would apply a discount to reflect its lack of marketability. With reference to the median of the DLOM applied in transactions with P/NBV between 0 times to 2.5 times published in The FMV Restricted Stock Study<sup>7</sup>, we believe a 10% DLOM is fair and reasonable for the valuation of the Equity Interest.

<sup>6</sup> FactSet Mergerstat is one of the world's major providers of financial information and analytical data for investment professionals.

<sup>7</sup> The FMV Restricted Stock Study is a restricted stock sourced DLOM database that provides empirical support to quantify marketability discounts used in the business valuation, venture capital, and merger and acquisition professions.

**XV. LIMITING CONDITIONS**

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company and the Target Group.

The opinions expressed in this report have been based on the information supplied to us by the Company/the Target Group and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Dates. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

**XVI. CONCLUSION OF VALUE**

In conclusion, based on the analysis stated above and on the valuation method employed, it is our opinion that the fair value of the Equity Interest of Huajin Financial (International) Holdings Limited and its subsidiaries as at 31 January 2017 is as follows:

<b>Subject of Valuation</b>	<b>Fair Value (HKD)</b>
100% equity interest in Huajin Financial (International) Holdings Limited and its subsidiaries	80,046,000

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,  
For and on behalf of  
**GREATER CHINA APPRAISAL LIMITED**

**Max K.P. Tsang**, *CPA, CFA, FRM, MStat*  
Director

Analysed and Reported by:

**Annie S.N. Wong**, *CPA*  
Manager, Business Valuation & Transaction Advisory

**Faye C.Y. Chan**, *CPA(Aust.)*  
Assistant Manager, Business Valuation & Transaction Advisory

**INVOLVED STAFF BIOGRAPHY**

**Max K.P. Tsang**, CPA, CFA, FRM, MStat

*Director*

Mr Tsang is presently the Director of Greater China Appraisal Limited. Mr Tsang is experienced in business valuation for private and listed companies for the purposes of financial reporting, IPO, mergers and acquisitions, financing, tax and litigation support purposes. The valuation services provided included business valuation, intangible asset valuation (such as trademarks, distribution networks, patents and customer relationship), biological assets valuation, mining valuation and financial instrument valuation. Mr. Tsang has extensive experience in serving private and listed enterprises in Hong Kong, China, Singapore and the United States. His experience covers a wide range of industries including agriculture, financial services, infrastructure, telecommunications, information technology, retail, real estate, mining and multimedia.

**Annie S.N. Wong**, CPA

*Manager, Business Valuation & Transaction Advisory*

Ms. Wong is experienced in performing business and intangible asset valuation for private and public companies in various industries including financial services, green energy, property development, sewage and entertainment industries for the purpose of financial reporting, merger and acquisition and share repurchase.

**Faye C.Y. Chan**, CPA(Aust.)

*Assistant Manager, Business Valuation & Transaction Advisory*

Ms. Chan's experiences in valuation of business cover different industries including foresting, manufacturing, medical, food & beverage, financial services, infrastructure and trading and information technology. She has experience in valuation of intangible asset including trademarks, patents and concession rights etc.

**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF INTERESTS****(i) Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures of the Company or any associated corporations**

As at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## (ii) Interests of substantial Shareholders

*Long position in Shares*

Name	Capacity/nature of interests	Number of Shares	Approximate percentage of the issued share capital of the Company
Zhuhai Huafa (Note 1)	Interest in controlled corporations	3,707,600,000	40.30%
Cai Guang (Note 2)	Interest in controlled corporations	1,337,753,600	14.54%
Guangdong Constar Group Investment Co. Limited (Note 2)	Interest in controlled corporations	483,846,400	5.30%
Hong Kong Hop Chong Investment Limited (Note 2)	Interest in controlled corporations	483,846,400	5.30%

*Notes:*

1. Zhuhai Huafa holds 100% of the issued share capital of Hong Kong Huafa Investment Holdings Limited, which in turn holds 100% of the issued share capital of Huajin Investment. Since Huajin Investment holds 3,707,600,000 Shares, Zhuhai Huafa is deemed to be interested in 3,707,600,000 Shares by virtue of its shareholding in Huajin Investment.
2. Mr. Cai Guang holds 100% of the issued share capital of Guangdong Constar Group Investment Co. Limited (incorporated in the British Virgin Islands) ("**Constar**"), which holds 426,953,600 Shares. He also holds 100% of the issued share capital of Guangdong Constar Group Investment Co. Limited (incorporated in Samoa), which in turn holds 100% of the issued share capital of Hong Kong Hop Chong Investment Limited ("**Hop Chong**"), which holds 483,846,400 Shares. Mr. Cai Guang also holds 100% of the issued share capital of Hong Kong Hop Wing Investment Limited, which in turn holds 100% of the issued share capital of Jinglong Investment Holdings Limited ("**Jinglong**"), which holds 426,953,600 Shares. Therefore, Mr. Cai Guang is deemed to be interested in a total of 1,337,753,600 Shares by virtue of his shareholding in Constar, Hop Chong and Jinglong.

So far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, no other persons (other than the substantial Shareholders disclosed above) had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

**3. DIRECTORS' INTERESTS****(i) Interests in competing business**

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) had an interest in any business which competes, or are likely to compete, either directly or indirectly, with the business of the Group.

**(ii) Interests in assets**

None of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Company were made up) and up to the Latest Practicable Date.

**(iii) Interests in contract or arrangement**

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Enlarged Group.

**4. SERVICE CONTRACTS**

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

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 6. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinion or advice which are contained or referred to in this circular:

Greater China Appraisal Limited	independent valuer
Somerley Capital	a licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding, direct or indirect, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, each of the above experts did not have any interest, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

## 7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. on Monday to Friday, except for public holidays, at the head office and principal place of business of the Company in Hong Kong from the date of this circular up to and including the date of SGM:

- (i) the Agreement;
- (ii) the letter from Independent Board Committee to the Independent Shareholders, the text of which is set out on page 20 of this circular;
- (iii) the letter from Somerley Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 38 of this circular;
- (iv) the valuation report of the Target Group issued by Greater China Appraisal Limited as set out in Appendix I to this circular;
- (v) the written consents referred in the section headed "Experts and Consents" of this appendix; and
- (vi) this circular.

**8. GENERAL**

- (i) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its head office and principal place of business in Hong Kong is at Unit 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong.
- (ii) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iii) In the event of any inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text of the same.

## NOTICE OF SGM

# iOne Holdings Limited 卓智控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 982)**

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**Meeting**”) of iOne Holdings Limited (the “**Company**”) will be held at 2:30 p.m. on Tuesday, 23 May 2017 at Unit 3605, 36/F, Cheung Kong Center, 2 Queen’s Road Central, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

“**THAT:**

- (a) the entering into of the Agreement (as defined in the circular of the Company dated 28 April 2017), a copy of which has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder and the implementation thereof be and are hereby confirmed, approved, authorised and ratified; and
- (b) any one director or duly authorised signatory of the Company or any two directors or duly authorised signatories of the Company, if the affixing of the common seal of the Company is necessary, be and is/are hereby authorised for and on behalf of the Company to execute (and, if necessary, affix the common seal of the Company to) any such documents, instruments and agreements and to do any such acts or things as may be deemed by him/her/them in his/her/their absolute discretion to be incidental to, ancillary to or in connection with the matters contemplated in the Agreement and the transactions contemplated thereunder, and the implementation thereof.”

By order of the Board  
**iOne Holdings Limited**  
**Li Guangning**  
*Chairman*

Hong Kong, 28 April 2017

\* *For identification purpose only*

## NOTICE OF SGM

*Notes:*

1. The resolution at the Meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy, or if a shareholder who is the holder of two or more shares may appoint more than one proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. For determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Thursday, 18 May 2017 to Tuesday, 23 May 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Meeting, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 17 May 2017.

*As at the date of this notice, the board of directors of the Company comprises Mr. Li Guangning (executive director and chairman), Mr. Xie Wei (executive director and chief executive officer), Ms. Zhong Ming (executive director and chief financial officer); Ms. Zhang Kuihong (non-executive director); Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi (all being independent non-executive directors).*