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MADISON GROUP[®]

Madison Holdings Group Limited

麥迪森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8057)

**SECOND SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO
THE ENTERING INTO THE AGREEMENT TO ACQUIRE
20% EQUITY INTEREST IN THE TARGET COMPANY**

References are made to the announcements of Madison Holdings Group Limited (the “**Company**”) dated 30 March 2018 and 13 April 2018, respectively (the “**Announcements**”) in relation to the entering into the agreement to acquire the Sale Interest. Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

BASIS OF CONSIDERATION

Further to the disclosure made on the basis of the consideration for the Acquisition of JPY 5,000,000,000 (equivalent to approximately HK\$362,000,000) in the Announcements, the Board would like to supplement the following information as to the basis for determining the consideration for the Acquisition.

Based on the management account of the Target Company for the 10 months ended 31 January 2018, the financial performance of the Target Company has been substantially improved. The Target Company recorded a total revenue and net profit of approximately JPY 2,594 million and a net profit of JPY 1,824 million, respectively. According to the management of the Target Company, during the 10-month period ended 31 January 2018, the enhancement of trading system of the platform maintained by the Target Company has shortened the time lag between transaction order and settlement which resulted in reducing price fluctuation during the time lag and capturing gain arising from price fluctuation more swiftly.

The Directors had reviewed the management account of the Target Company for the 10 months ended 31 January 2018 and preliminary profit and loss account for February 2018. The Directors are of the view that both revenue and net profit have been in momentum of substantial growth.

In addition, during the course of negotiation for the consideration, the Company was advised by the Vendor that it has commissioned a Japanese business valuation company to prepare a valuation report (the “**Vendor’s Valuation Report**”). Pursuant to the Vendor’s Valuation Report, the revenue and the net profit of the Target Company for the financial year ending 31 March 2019 shall be JPY 21.6 billion and approximately JPY 13.9 billion respectively (collectively, the “**Forecast Figures**”), and the equity value of the Target Company ranged from JPY 28 billion to JPY 35 billion (the “**Valuation Range**”).

According to the management of the Target Company, since (i) the Target Company has successfully registered to operate virtual currency trading platform with the Financial Services Agency (the “**FSA**”) of Japan in end of September 2017; and (ii) the enhancement of the trading system of the Target Company has completed by end of December 2017, the revenue of the Target Company has been substantially increased. Thus, the Forecast Figures are mainly derived from the annualised historical performance of the Target Company of January 2018 and February 2018, and the following assumptions.

Given the tremendous growth of customer accounts from 14,000 in September 2017 to 40,000 in February 2018, the management of the Target Company estimated that for the year ending 31 March 2019, the number of customer accounts will increase by 3,000 per month with monthly revenue per member maintains at approximately JPY 42,000, which is the average revenue generated in January and February 2018. Nevertheless, the Vendor’s valuer has taken a more conservative approach of approximately 1,500 new customer accounts each month and 80% of the average revenue generated in January and February 2018, which results in an increase of approximately 7% as compared to the annualised revenue in January and February 2018.

Further, the management of the Target Company expected that the selling, general and administrative expenses will increase at the same time, as it will spend additional approximately JPY 100 million to recruit technicians, marketing personnel and administrative staff and approximately JPY 150 million for marketing campaigns in the financial year ending 31 March 2019, representing an increase of approximately 21% as compared to the annualised selling, general and administrative expenses in January and February 2018.

As a result of the above, the net profit for the financial year ending 31 March 2019 is forecasted as approximately JPY 13.9 billion, representing an increase of approximately 5% as compared to the annualised net profit in January and February 2018.

The Valuation Range was derived from the free cash flow for the financial year ending 31 March 2019 generated from the Forecast Figures based on a perpetual discounted free cash flow method of income-based approach under two scenarios with a lower discount rate of 40% and a higher discount rate of 50%.

Pursuant to the Vendor’s valuer, market-based approach was not adopted because there were no comparable transactions or market references. Normally, perpetual stream of free cash flows are taken into account as terminal value in a discounted cash flow model. On the basis that the Vendor’s Valuation Report adopted a conservative assumption that there will be no business growth after the financial year ending 31 March 2019, Gordon Growth Model was adopted as the valuation method.

The Gordon Growth Model, or the perpetual discounted free cash flow method, is a widely used financial theory based on discounted cash flow method with its formula stated below:

$$\text{Free cash flow} \times (1 + g) / (r - g),$$

where “Free Cash Flow” stands for the free cash flow for the financial year ending 31 March 2019;

where “r” stands for the discount rate or required rate of return; and

where “g” stands for the expected constant yearly growth rate of the free cash flow.

The equity value of the Target Company is calculated by discounting perpetual stream of free cash flows based on the forecast provided by the Target Company, which, for conservative purpose, the Target Company assumes no growth of the free cash flow. The discount rate of 50% and 40% used in computing the valuation is referenced to the range of discount rates of 40% – 60% expected by venture capital investors for first stage or early development of an entity’s development described in a publication “Valuation of Privately-Held-Company Equity Securities Issued as Compensation” published by The American Institute of CPAs in 2013.

The details of the calculation of the Valuation Range under the two scenarios are as follow:

	Scenario 1 r = 50% JPY	Scenario 2 r = 40% JPY
Net profit for the financial year ending 31 March 2019	13,918,489,000	13,918,489,000
Free cash flow	14,010,717,000	14,010,717,000
Perpetual growth rate	0%	0%
Discounted free cash flow	28,021,434,000	35,026,792,000

Based on the Gordon Growth Model, the lower bound and the upper bound of equity value of the Target Company arrives at JPY 28,021,434,000 and JPY 35,026,792,000, respectively.

As the situation of the Target Company has materially changed, i.e. being an officially registered company to operate the virtual currency trading platform by end of September 2017, and having upgraded its trading system in end of December 2017, the Directors considered that the historical performance of the Target Company before January 2018 is not a meaningful reference. Having reviewed the basis of the Forecast Figures and the Valuation Range, the Directors agreed that (i) the underlying assumptions for the calculating the range of equity value of the Target Company; and (ii) the consideration be determined with reference to the equity value of the Target Company of JPY 25 billion, which represents approximately 10.7% discount to the low-end value and approximately 28.5% discount to the high-end value of the Target Company as shown in the Vendor's Valuation Report are fair and reasonable.

Further, to verify the value in the Vendor's Valuation Report and to sustain the value of the Target Company of not less than JPY 25 billion (being the valuation of the Target Company to be acquired by the Company), the Company has made a condition precedent in the Agreement, namely, the obtaining of a valuation, carried out an independent Hong Kong based business valuation company (the "HK Valuer") commissioned by the Company, on the Target Company to ascertain the valuation and the assumptions and methodologies adopted by the Vendor's Valuation Report. As at the date of this announcement, the HK Valuer is still performing the valuation and has not yet finalised the valuation report. The Company will make further announcement(s) to disclose the details of the valuation report prepared by the HK Valuer when it is issued.

FURTHER INFORMATION OF THE TARGET COMPANY

The Target Company was incorporated on 3 March 2016. There is no business activity since the date of incorporation and up to the financial year ended 31 March 2016. During financial year ended 31 March 2017, the Target Company commenced the business operation and accumulated client base. The Target Company offers virtual currency trading services for trading platform service income, mainly the spread income from trading virtual currencies and fiat currencies.

Since September 2017, the Target Company has become one of the 16 companies which has successfully completed the registration with the FSA to operate virtual currency trading platform. At the end of 2017, the Target Company has upgraded the trading system to cater for larger trading volume with reduced time lag between transaction and settlement. Business operations and financial performance has been improving resulting from the system upgrade and the registration.

Prior to the successful registration with Prime Minister (through the Kanto Financial Bureau) in Japan, the operation of the Target Company is very limited, the major business of the Target Company is virtual currencies trading. The number of customers and trading volume were relatively few as public were generally conservative towards new industry without proper regulatory regime. Therefore, trading platform service income for the two financial years ended 31 March 2016 and 2017 were relatively low when compared to the period after the registration. Further, the Target Company was in its start-up investment stage before the registration. The Target Company on one hand required capital expenditures (mainly hardware and software) to set up its virtual currency trading system while on the other hand has little market awareness that attracted limited members or customers to join and use its trading system. As disclosed above, the number of members of the Target Company increased from around 14,000 in September 2017 to over 40,000 in February 2018.

Since the enhancement of the trading system of the Target Company had not been completed before December 2017, the original trading system used by the Target Company during the financial year ended 31 March 2017 was not able to shorten the time lag between transaction order and settlement of virtual currency trading. Therefore, the Target Company was exposed to longer time of price fluctuation, resulting in trading loss. The problem was particularly severe when the Target Company had entered into a back-to-back transaction with other trading platforms to take proprietary position in virtual currencies for satisfying the large trade order.

After the duly registration in September 2017, the Target Company has been mainly engaged in trading platform service income and virtual currencies trading.

Trading platform service income

By matching sell and buy orders placed at the trading platform or conversion between virtual currencies and fiat currencies, the Target Company charges commission to both sellers and buyers by offering them with bid-ask spread. In addition, the Target Company will also provide consultancy and on-going system maintenance services to other companies who plans to operate virtual currency trading platforms or related technologies.

Virtual currencies trading

When a client places a trade order which is so large to be fulfilled by matching the counterparties within the trading platform, the Target Company may enter into a back-to-back transaction with other trading platform by taking proprietary position in virtual currencies for satisfying the large trade order. Spread income and valuation gain/(loss) will be recorded for such proprietary position.

After the completion of the Acquisition, the Target Company will continue to be engaged in trading platform service and virtual currencies trading. As advised by the Vendor, the Target Company plans to launch a marketing campaign to promote its business via its own website, various digital marketing channels and traditional marketing methods including magazines. The Target Company aims to acquire more members enlarging client base and hence increase the revenue generated from the spread of various virtual currencies trading and back-to-back transaction.

Also, the market is generally offering a higher rate of spread from trading virtual currencies and fiat currencies range from 5% to 8%, which the Target Company is just offering a narrower spread. Upon the number of members of the Target Company is enlarged to certain level, the Target Company will be able to increase the spread so that the revenue would be increased. The Target Company has obtained the registration with Prime Minister (through the Kanto Financial Bureau) as of 29 September 2017 in relation to the operation of virtual currency trading platform which permits the Target Company to operate online platform for trading approved virtual currencies in Japan.

Upon completion of the Acquisition, the Company will only hold 20% equity interest in the Target Company and the Company will not be entitled to nominate any director to the board of directors of the Target Company.

THE REGISTRATION FOR OPERATING VIRTUAL CURRENCY TRADING PLATFORM SERVICE

Under Article 63-2 of the Payment Services Act. (revised in 2017), “No person may be engaged in the virtual currency trading platform service unless the person is registered with the Prime Minister.” As advised by the attorney-at-law admitted in Japan, there is no other law to request the person/entity who wish to conduct the business in connection with the virtual currency trading platform service to obtain any other registration or permission in Japan. The Japanese attorney-at-law of the Company has performed on-line search on 7 March 2018 with the governmental website in Japan which shows that the Target Company is registered with Prime Minister (through the Kanto Financial Bureau) and the Target Company had completed the registration to conduct the business in connection with the virtual currency trading platform service in Japan in accordance with the Payment Services Act without any additional or further registration or permission.

Upon discussions with the management of the Target Company, the Company was given to understand that there is no condition attached to the registration restricting virtual currency trading platform activities to be conducted by the Target Company. There is also no validity period specified. According to the management of the Target Company, they are required to do annual return to FSA in order to maintain the registration.

As advised by Target Company, there is no explicit regulation requiring the Acquisition to be approved by any regulator (such as FSA). However, in practice, it is normal for the trading platform operator to notify and obtain the verbal consent from the regulator for any share transaction. Prior to the entering into of the Agreement, the Company has obtained the preliminary view from the attorney-at-law in Japan that there is no particular restriction on the acquisition of equity stake of a registered company engaging in virtual currency trading platform service by a foreign entity outside Japan.

The Company has instructed the attorney-at-law in Japan to prepare a formal legal opinion as to the legality and validity of the Acquisition, including but not limited to the change of shareholder of the Target Company, and the operation of the virtual currency trading platform in the legal opinion, to ensure the Acquisition shall be legal and valid and have no material adverse impact on the operation of the virtual currency trading platform.

By order of the Board
Madison Holdings Group Limited
Ting Pang Wan Raymond
Chairman and executive Director

Hong Kong, 18 April 2018

As at the date of this announcement, the executive Directors are Mr. Ting Pang Wan Raymond, Mr. Zhu Qin, Mr. Zhou, Francis Bingrong, Mr. Teoh Ronnie Chee Keong and Ms. Kuo Kwan; and the independent non-executive Directors are Ms. Fan Wei, Mr. Chu Kin Wang Peleus and Mr. Ip Cho Yin, J.P.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting. This announcement will also be published on the website of the Company at www.madison-wine.com.