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Business Valuation

FOR

MADISON HOLDINGS GROUP LIMITED

PREPARED BY

BonVision International Appraisals Limited

DATE : 17 JULY 2024

CASE REF : 0424/IT/BV1128



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17 July 2024

Madison Holdings Group Limited

Unit 26-28, 8/F,
One Island South,
2 Heung Yip Road,
Wong Chuk Hang, Hong Kong

Dear Sir/Madam,

Re: Business Valuation in relation to 38% Equity Interest in Hackett Enterprises Limited

In accordance with the instructions from Madison Holdings Group Limited (hereinafter referred to as the “Company”) to us to conduct a business valuation in relation to 38% equity interest in Hackett Enterprises Limited (hereinafter referred to as the “Business Enterprise”) held by the Company. We are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing you with our valuation as at 31 March 2024 (hereinafter referred to as the “Date of Valuation”).

This report states the purpose of valuation, scope of work, economic overview, industry overview, an overview of the Business Enterprise, basis of valuation, valuation methodology, major assumptions, information reviewed, limiting conditions, remarks and presents our opinion of value.

1. PURPOSE OF VALUATION

This valuation report has been prepared exclusively for the use of the directors and management of the Company. Additionally, BonVision International Appraisals Limited (hereinafter referred to as “BVIA”) acknowledges that this report may be made available to the Company for public documentation purpose.

BVIA does not assume any responsibility beyond the Company for the contents of this report. If any other parties choose to rely on the information and findings presented in this report, they do so entirely at their own risk and BVIA bears no liability for such third-party usage.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, the management of the Business Enterprise and/or their representative(s) (together referred to as the "Management").

In preparing this report, we have undertaken the necessary steps to facilitate the valuation for the Business Enterprise. We have engaged in detailed discussions with the Management. We have coordinated with the Company's representatives to obtain all the required information and supporting documents pertaining to the Business Enterprise. We have conducted market research on comparable companies and performed data analysis on the market trends.

Based on the research and information, we have selected an appropriate valuation method to conduct the valuation of the Business Enterprise and compiled this report.

3. ECONOMIC OVERVIEW

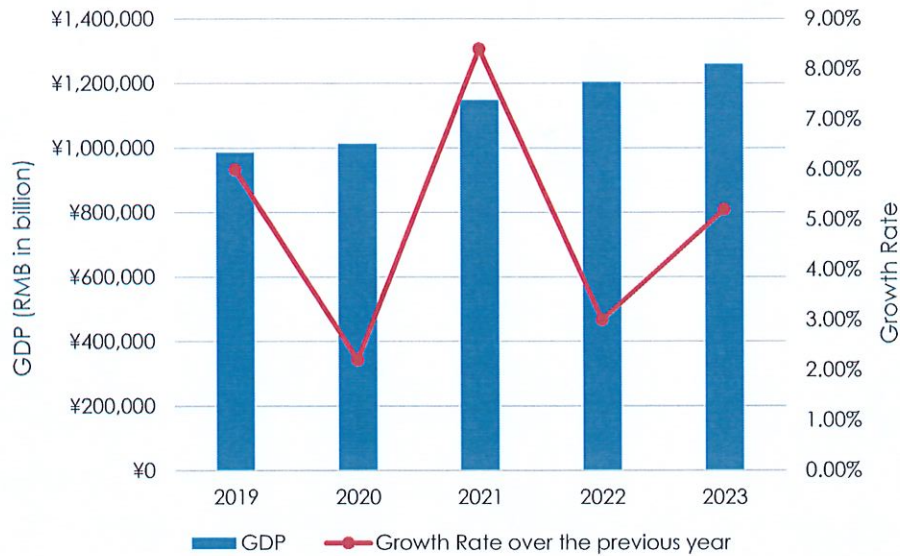
As the world's second largest economy, the development in the People's Republic of China ("China" or "PRC") has significant implications for businesses, investors, and policymakers worldwide. This overview will delve into key aspects of China's economy, including Gross Domestic Product ("GDP") growth and inflation levels measured by the Consumer Price Index ("CPI").

3.1 Gross Domestic Product of China

China's economy has been characterized by rapid growth in recent decades. According to the State Council of the People's Republic of China, China's GDP grew at an average annual rate of 6.6% from 2013 to 2021, surpassing the global average of 2.6%. This remarkable growth was primarily driven by domestic consumption, infrastructure investment, and an increase in exports.

However, in recent years, due to factors such as the COVID-19 pandemic and geopolitical complexities, China's GDP growth rate has experienced a downward trend. Figure 1 illustrates the GDPs and growth rates of China from 2019 to 2023. Nonetheless, in 2023, a year focused on economic recovery, China's GDP still grew by 5.2% year-on-year. The size of China's economy expanded from RMB120 trillion in 2022 to RMB126 trillion in 2023 as reported by the National Bureau of Statistics of China.

Figure 1 – GDPs and Growth Rates of China from 2019 to 2023



Source: National Bureau of Statistics of China

3.2 Inflation in China

In China, the CPI serves as a crucial indicator of price stability and the overall cost of living. From 2013 to 2022, China experienced moderate inflation, typically ranging between 1% and 3%, with an average of 2%.

In 2022, the average CPI in China remained steady at 2%. Despite the challenges posed by the pandemic and geopolitical complexities, China's policymakers made efforts to stimulate domestic demand, leading to a slight rise in CPI for the full year of 2023, at approximately 0.2% annually, according to the National Bureau of Statistics of China. However, it is noted that in December 2023, the CPI edged down by 0.3% year-on-year, indicating increasing deflationary pressures due to weak domestic demand during the economic recovery. Figure 2 illustrates CPI (annual variation in %) of China from 2019 to 2023.

Figure 2 – Consumer Price Index (CPI, annual variation in %) of China from 2019 to 2023



Source: Capital IQ

3.3 Structural Reforms and Shift to Quality Future Growth

Apart from impact of the pandemic and geopolitical affairs, China has embarked on a path of economic transformation, transitioning from a model driven by investment and exports to one that prioritizes quality future growth, consumption, and innovation, with a promising future. This transition is part of the effort to achieve sustainable and balanced economic development. To facilitate this shift, China has implemented a range of structural breakdowns and reforms, including the reduction of excess industrial capacity, the enhancement of the role of market forces in resource allocation, and the promotion of innovation and technological advancements. These reforms are aimed at fostering a more efficient and dynamic economy that is less dependent on traditional industries and more focused on innovation and domestic consumption as key drivers of future growth.

4. INDUSTRY OVERVIEW

Microfinancing originates from the idea of providing small loans to small and medium-sized enterprises (“SMEs”), and individuals for business expansion and personal consumption. The surge of microfinancing industry in China has been fueled by several factors. Firstly, China’s vast population has created a strong demand for accessible and affordable credit. Secondly, the microfinancing industry has played a crucial role in bridging the financing gap by offering loans to those who may not have access to traditional banking services. These loans are provided without the need for collateral or guarantors, and the processing time is significantly shorter compared to traditional lending institutions. Microfinancing plays a vital role in promoting financial inclusion by providing financial services to underserved segments of the population. Recognizing its importance, the government of China has shown significant support for the microfinancing in recent years.

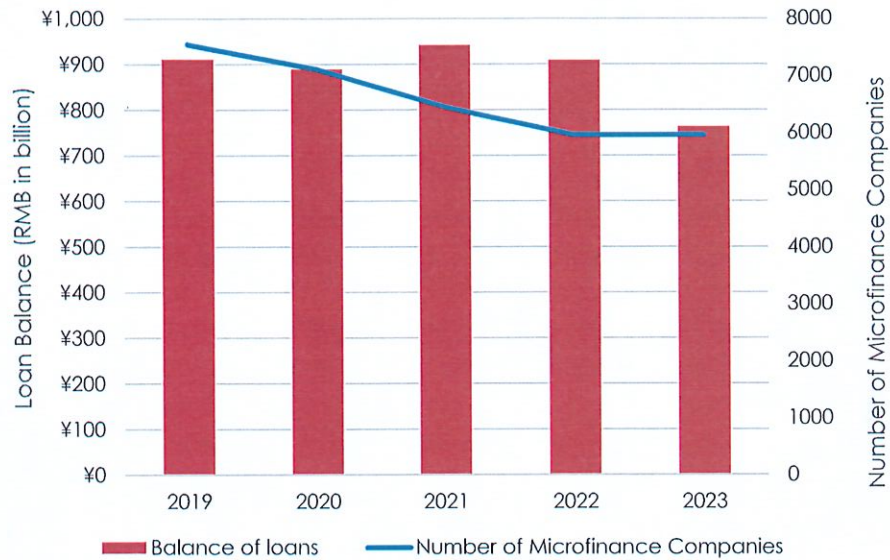
4.1 Growth of the Microfinancing Industry in China

The microfinancing industry in China has witnessed remarkable growth over the past decade. In 2013, the General Office of the State Council of the People’s Republic of China issued an opinion titled “關於金融支持經濟結構調整和轉型升級的指導意見”, which proposed further promotion of private capital in small loans and the financial sector. As a result, the number of microfinance companies in China and the size of loans began to expand rapidly. In 2015, another opinion titled “關於促進網路金融健康發展的指導意見” was issued. This introduced online microfinancing licenses, breaking the restriction that traditional licenses were limited to regional business operations. With online licenses, microfinance companies could conduct business nationwide. From 2015 to 2017, the number of microfinance companies reached a peak of 8,910, with a maximum loan balance of nearly RMB1 trillion.

4.2 Growth of the Microfinancing Industry in China

According to the statistical data report titled “2023年小額貸款公司統計數據報告” by the People’s Bank of China, there were 5,500 microfinance companies operating across the country as of the end of December 2023. The total loan balance amounted to RMB762.9 billion. In comparison to 2022, the number of microfinance companies decreased by 458, and the loan balance of microfinancing decreased by RMB 147.8 billion. Figure 3 illustrates the trend of the number of microfinance companies and the loan balance in China. Figure 3 depicts a continuous decline in the number of microfinance companies and a drop in the loan balance throughout 2023. It indicates that China has undergone a notable transition in the field of microfinancing.

Figure 3 – Number of Microfinance Companies and Loan Balance in China from 2019 to 2023



Source: The People's Bank of China

4.3 Regulatory Supervision on Microfinancing

Apart from sluggish economy growth in China, another primary reason for the slowdown in the development of the microfinancing industry is the continuous strengthening of financial supervision. Due to insufficient internal risk control capabilities, and immature business models of some microfinance companies, the China Banking and Insurance Regulatory Commission and the People's Bank of China drafted an interim measure for microfinancing titled “網絡小額貸款業務管理暫行辦法-徵求意見稿” in 2020. This measure aims to clarify the regulatory system and stipulate requirements for online microfinance companies. Specific requirements include a minimum capital requirement of not less than RMB 1 billion, adherence to risk management standards, guidelines for loan purposes, and regulated permissible interest rates, among others. To support the transition of the microfinance industry after the exploration and growth periods, the government has implemented rules to ensure the stability and sustainability of the industry, aligning with the natural laws of development.

5. OVERVIEW OF THE BUSINESS ENTERPRISE

The Business Enterprise is an investment holding company incorporated in the Republic of Seychelles with limited liability. The core business activities of the Business Enterprise are conducted through these subsidiaries, which are primarily focused on the provision of secured financing services, microfinance services, and financial consulting services in China. In this capacity, the Business Enterprise's primary role is to deploy capital, make strategic investments, and provide oversight and support to its operating subsidiaries in the financial services sector within the Chinese market.

6. BASIS OF VALUATION

Our valuation is conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2022, market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

7. VALUATION METHODOLOGY

There are three well-established approaches that can be used to determine the market value of the Business Enterprise: the Market-Based Approach, the Income-Based Approach, and the Asset-Based Approach. The appropriateness of each approach depends on the specific circumstances and the nature of the business entity being valued.

Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalising the economic benefits to be received in the next period at an appropriate capitalisation rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital (“**equity and long term debt**”). Under the Asset-Based Approach, the market value of equity of a business entity refers to the market values of various assets and liabilities on the statement of financial position of the business entity as at the measurement date, in which the market value of each asset and liability was determined by reasonable valuation approaches based on its nature.

Selection of Valuation Approach

In the process of valuing the Business Enterprise, we have taken into account the Business Enterprise’s operations, financial information, and the nature of the business.

The Income-Based Approach was not adopted because the Management was unable to provide a financial forecast beyond one year along with a concrete business plan. Making numerous assumptions would have been necessary, which could have significantly influenced the valuation outcome. The Asset-Based Approach was not chosen, as it would not have captured the future earnings potential of the business and, therefore, could not accurately reflect the market value.

Consequently, we have decided to adopt the Market-Based Approach to arrive at the market value of the 38% equity interest in the Business Enterprise. Under this approach, we had to determine the appropriate valuation multiples of comparable companies, considering price-to-sales (P/S), price-to-earnings (P/E), and price-to-book (P/B) multiples.

The P/S multiple was not adopted, as it could not fully capture the cost structure of the Business Enterprise. The P/E multiple was also not selected, as the microfinance sector is subject to various economic factors, such as interest rates and credit risk, which can cause earnings to fluctuate significantly year-over-year.

We considered to adopt the P/B multiple to calculate the market value of the Business Enterprise as the operating performance of companies in microfinance sector greatly depends on the net assets value which includes significant portion of the loan receivables and cash.

Comparable Companies

We adopted several listed companies with similar business nature and operations similar to those of the Business Enterprise as comparable companies. The comparable companies were selected mainly with reference to the following selection criteria:

- The companies are listing on the Hong Kong Stock Exchange;
- The companies are primarily engaged in consumer finance segment with more than 50% revenue generated from financing and lending services;
- The companies have major operating segment with more than 50% revenue from China;
- The companies have sufficient listing and operating histories; and
- The financial information of the companies is available to the public.

Details of the comparable companies adopted were listed as follows:

Company Name	Stock Code	Listing Location	Business Description	Market Capitalisation (HKD million)
Zuoli Kechuang Micro-finance Company Limited	SEHK:6866	Hong Kong	Zuoli Kechuang Micro-finance Company Limited operates as a microfinance company in the People's Republic of China.	366
Quanzhou Huixin Micro-credit Co., Ltd.	SEHK:1577	Hong Kong	Quanzhou Huixin Micro-Credit Co., Ltd., a microfinance company, provides various short-term financing solutions in the People's Republic of China.	347
Yangzhou Guangling District Taihe Rural Micro-finance Company Limited	SEHK:1915	Hong Kong	Yangzhou Guangling District Taihe Rural Micro-finance Company Limited grants loans to agriculture, rural areas, and farmers in the People's Republic of China.	291
VCREDIT Holdings Limited	SEHK:2003	Hong Kong	VCREDIT Holdings Limited provides online consumer finance services to borrowers in the People's Republic of China.	1,079
Zhong Ji Longevity Science Group Limited	SEHK:767	Hong Kong	Zhong Ji Longevity Science Group Limited, an investment holding company, engages in the money lending business in Hong Kong and Mainland China.	61

Company Name	Stock Code	Listing Location	Business Description	Market Capitalisation (HKD million)
China Financial Services Holdings Limited	SEHK:605	Hong Kong	China Financial Services Holdings Limited, an investment holding company, provides financial services in the People's Republic of China, Hong Kong, and the United Kingdom.	45
Capital Finance Holdings Limited	SEHK:8239	Hong Kong	Capital Finance Holdings Limited, an investment holding company, provides short-term financing services in China and Hong Kong.	60

Source: S&P Capital IQ.

The major business segment and geographical segment of the comparable companies:

Company Name	Major Business Segment	Major Geographical Segment
Zuoli Kechuang Micro-finance Company Limited	Lending services – 100%	China – 100%
Quanzhou Huixin Micro-credit Co., Ltd.	Micro-credit business – 100%	China – 100%
Yangzhou Guangling District Taihe Rural Micro-finance Company Limited	Loan business – 100%	China – 100%
VCREDIT Holdings Limited	Consumer financial services – 100%	China – 100%
Zhong Ji Longevity Science Group Limited	Money lending and financial advisory business – 51.8%	China – 76.68%
China Financial Services Holdings Limited	Financing service – 100%	China – 72.99%
Capital Finance Holdings Limited	Short-term financing services – 100%	China – 100%

Source: S&P Capital IQ.

Company Name	Stock Code	Stock Price	Book Value Per Share	P/B Multiple
Zuoli Kechuang Micro-finance Company Limited	SEHK:6866	HKD0.31	HKD1.82	0.17
Quanzhou Huixin Micro-credit Co., Ltd.	SEHK:1577	HKD0.51	HKD1.88	0.27
Yangzhou Guangling District Taihe Rural Micro-finance Company Limited	SEHK:1915	HKD0.49	HKD1.60	0.30
VCREDIT Holdings Limited	SEHK:2003	HKD2.21	HKD9.40	0.24
Zhong Ji Longevity Science Group Limited	SEHK:767	HKD0.13	HKD0.89	0.15
China Financial Services Holdings Limited	SEHK:605	HKD0.22	HKD3.07	0.07
Capital Finance Holdings Limited	SEHK:8239	HKD0.64	HKD0.65	0.98
			Median (Rounded)	0.24

The P/B multiple adopted was the median of the P/B multiples of the above comparable companies as at the Date of Valuation as extracted from S&P Capital IQ.

7.1 Business Valuation Details

The statement of financial position of the Business Enterprise shows a minority interest of HKD104,757,171 which represents 25.83% of the total shareholders equity. The minority interest was adjusted in the valuation of the 38% equity interest of the Business Enterprise.

We obtained the estimated market value of the Business Enterprise as at 31 March 2024 by applying the median P/B multiple to the operating net assets value (NAV) of HKD155,184,954 of the Business Enterprise for the year ended 31 March 2024. The market value of the Business Enterprise was then arrived by adjusting with the net non-operating assets and the marketability discount.

Calculation of the Operating Net Assets Value (NAV)

We have calculated the operating NAV by adjusting the NAV of the Business Enterprise with the non-operating assets and liabilities. As discussed with the Management, other receivables of HKD6,524,409, amounts due from the Company of HKD136,568,327, other payables of (HKD2,988,039), accrual expenses of (HKD579,041) and amounts due to fellow subsidiaries of (HKD592,795) were classified as non-operating in nature. The goodwill arose from previous acquisition, which had minimal contribution to the operating activities of the Business Enterprise, was disregarded in the valuation.

Net Assets Value of the Business Enterprise (HKD)	300,814,216
- Non-operating assets (HKD)	143,092,735
+ Non-operating liabilities (HKD)	4,159,875
- Goodwill (HKD)	6,696,401
Operating Net Assets Value (HKD)	155,184,954

Note: Total figures may not sum up due to rounding.

Marketability Discount

Compared to ownership interests in public companies, shares in closely-held companies are not readily marketable. As a result, the value of a share of stock in a privately-held company is typically less than a comparable share in a publicly-traded company.

Referencing the findings from the "Stout Restricted Stock Study 2023" published by Stout Risius Ross, LLC, we adopted a discount for lack of marketability of 15.70% in determining the market value of the Business Enterprise. The restricted stock study provided empirical data on the discounts applied to the fair market value of shares in privately-held companies to account for their lack of marketability compared to publicly-traded shares.

Calculation of the Market Value of 38% equity interest in the Business Enterprise

The calculation details of the market value of 38% equity interest in the Business Enterprise were illustrated as follows:

Operating NAV of the Business Enterprise (HKD)	155,184,954
Price to Book Multiple	0.24
Market Value before Adjustment	37,244,389
Adjustment on non-operating assets (HKD)	143,092,735
Adjustment on non-operating liabilities (HKD)	(4,159,875)
Market Value before Marketability Discount	176,177,250
x Marketability Discount	(1 – 15.70%)
Market Value of 100% Equity Interest in the Business Enterprise (HKD)	148,517,421
x Percentage of Equity Interest in the Business Enterprise	38%
Market Value of 38% Equity Interest in the Business Enterprise (HKD)	56,436,620
Market Value of 38% Equity Interest in the Business Enterprise (HKD) (Rounded)	56,437,000

8. KEY ASSUMPTIONS

In arriving at our opinion of value, we have adopted certain specific assumptions in our valuation and the major ones are as follows:

- As advised by the Management, the consolidated unaudited financial statements of the Business Enterprise as at 31 March 2024 can reasonably represent the Business Enterprise's financial positions as at the Date of Valuation, since the audited financial statements as at the Date of Valuation were not available;
- The estimated operating net assets value used in arriving the market value of the Business Enterprise was calculated with reference to the consolidated unaudited financial statements for the year ended 31 March 2024 provided by the Management;
- As advised by the Management, the amounts due from the Company of HKD184,127,620 was on demand payable to the Business Enterprise without interest and specific maturity;

- As discussed with the Management, the nature of other receivables, amounts due from the Company, other payables, accrual expenses and amounts due to fellow subsidiaries were the assets and liabilities not employed for the operating activities;
- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained and renewable upon expiry;
- There will be sufficient supply of technical staff in the industries in which the Business Enterprise operates, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments;
- There will be no major change in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise; and
- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing.

9. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the market value of the Business Enterprise. The factors considered included, but were not necessarily limited to, the following:

- The consolidated unaudited financial statement of the Business Enterprise as at 31 March 2024;
- Historical financial information of the Business Enterprise;
- International Valuation Standards 2022 issued by International Valuation Standards Council;
- Group chart of the Business Enterprise;
- General descriptions in relation to the Business Enterprise;
- Economic outlook in China; and
- Industry outlook in China's microfinancing sector.

We have discussed the details with the Management regarding the information provided and assumed that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion.

10. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events or circumstances have not been considered and we are not required to update our report for such events and conditions.

We would particularly point out that our valuation was based on the information such as the company background, business nature and business projection of the Business Enterprise provided to us.

To the best of our knowledge, all data set forth in this report are assumed to be reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on the historical and/or prospective information provided by the Management and other third parties to a considerable extent in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We assumed that the Management is competent and perform duties under the company regulation. Also, ownership of the Business Enterprise was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market value of the Business Enterprise.

We have not investigated the title to or any legal liabilities of the Business Enterprise and have assumed no responsibility for the title to the Business Enterprise appraised.

Our conclusion of the market value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and the Management in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

No change to any item in any part of this report shall be made by anyone except BVIA. We have no responsibility for any such unauthorized change. Neither all nor any part of this report shall be disseminated to the public without the written consent and approval of BVIA through any means of communication or referenced in any publications, including but not limited to advertising, public relations, news or sales media.

This report may not be reproduced, in whole or in part, and utilized by any third parties for any purpose, without the written consent and approval of BVIA.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report shall not pass to the Company until all professional fee has been paid in full.

11. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Hong Kong Dollars (HKD).

We hereby confirm that we have neither present nor prospective interests in the Company, the Business Enterprise, and their associate companies, subsidiaries or the values reported herein.

12. OPINION OF VALUE

Based on the investigation stated above and the valuation method employed, the market value of 38% equity interest in the Business Enterprise as at the Date of Valuation, in our opinion, was reasonably stated as HKD56,437,000 (HONG KONG DOLLARS FIFTY SIX MILLION FOUR HUNDRED AND THIRTY SEVEN THOUSAND ONLY).

Yours faithfully,

For and on behalf of

BonVision International Appraisals Limited



Angela N.C. Kwan, CFA

Chief Executive Officer

Ms. Kwan is a charterholder of Chartered Financial Analyst (CFA) and a holder of Master Degree of Finance (Investment Management). She is also a holder of the Certificate in ESG Investing under CFA Institute, a regular member of CFA Society Hong Kong, a member of The Hong Kong Institute of Directors (MHKIoD), and an associate member of The Hong Kong Independent Non-Executive Director Association Limited (HKiNEDA). She has over 15 years of experience in providing professional valuation and consultancy services for listed and private companies in Hong Kong, the PRC, and worldwide, for accounting, financing, investment, merger and acquisition, initial public offering and spin-off purposes.