**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Wealthy Way Group Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser or the transferee or to the licensed securities dealer, or to the bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.

富道
WEALTHY WAY

# Wealthy Way Group Limited
# 富道集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3848)**

## (1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 47% EQUITY INTERESTS IN THE TARGET COMPANY; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Financial adviser to the Company**

AmCap
*Ample Capital Limited*
*豐盛融資有限公司*

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

Opus Capital Limited
創富融資有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular, unless the context otherwise requires.

A letter from the Board is set out on pages 5 to 21 of this circular.

A notice convening the EGM to be held at 24/F, Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 7 December 2018 at 4:30 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the same to 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, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be).

Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing the proxy shall be deemed to be revoked.

This circular will remain on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.cwl.com).

21 November 2018

# CONTENTS

*In this circular, the following expressions have the following meanings, unless the context otherwise requires:*

| | |
|---|---|
| "Acquisition" | the acquisition of 47% equity interests in the Target Company under the Agreement |
| "Agreement" | the agreement dated 22 August 2018 and entered into between the Vendor, the Purchaser, the Target Company and the Guarantor for the sale and purchase of 47% equity interests in the Target Company |
| "Announcement" | the announcement of the Company dated 22 August 2018 in relation to the Acquisition |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" | the board of Directors from time to time |
| "Business Day" | a day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong |
| "close associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Company" | Wealthy Way Group Limited (富道集團有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 3848) |
| "Completion" | completion of the Acquisition in accordance with the Agreement |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Consideration" | RMB156,700,000 (subject to adjustment, where applicable), being the consideration for the Acquisition under the Agreement |
| "CWW Leasing" | 富道(中國)融資租賃有限公司 (Wealthy Way (China) Leasing Company Limited*), a company established in the PRC as a wholly foreign-owned enterprise and an indirect wholly-owned subsidiary of the Company |
| "Director(s)" | the director(s) of the Company |

| | |
|---|---|
| "EGM" | the extraordinary general meeting of the Company to be held at 24/F, Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 7 December 2018 at 4:30 p.m. to approve the relevant resolution as set out in the notice of EGM |
| "Enlarged Group" | the Group as enlarged by the Acquisition |
| "Group" | the Company and its subsidiaries from time to time |
| "Guarantor" | Mr. Lu Nuanpei (盧暖培), who is Mr. Lo's sibling and Mr. Xie's uncle, a connected person of the Company |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | the independent committee of the Board, the members of which comprise all the independent non-executive Directors, formed to advise the Independent Shareholders with respect to the Agreement and the transactions contemplated thereunder |
| "Independent Shareholders" | Shareholders other than Mr. Lo, Wealthy Rise and their respective associates |
| "Independent Third Party(ies)" | any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, are third party(ies) independent of the Company and its connected persons of the Company in accordance with the Listing Rules |
| "Independent Valuer" | Roma Appraisals Limited, an independent valuer appointed by the Company |
| "Latest Practicable Date" | 16 November 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Long Stop Date" | 28 February 2019, or such other date as the Purchaser and the Vendor may agree |
| "Mr. Lo" | Mr. Lo Wai Ho (盧偉浩), the chairman of the Board and an executive Director |

| | |
|---|---|
| "Mr. Xie" | Mr. Xie Weiquan (謝偉全), a non-executive Director |
| "Opus Capital" | Opus Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Agreement and the transactions contemplated thereunder |
| "Party A" | Mr. Lei Ting (雷霆), who holds 1.625% equity interests in the Target Company and is an Independent Third Party |
| "Party B" | Ms. Kang Jing (康靜), who holds 1.625% equity interests in the Target Company and is an Independent Third Party |
| "PRC" | the People's Republic of China and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan |
| "Promissory Note" | the promissory note with principal face value of RMB109,690,000 and a 60-month term at 3.5% interest per annum to be issued by the Purchaser in favour of the Vendor (or its nominee) |
| "Prospectus" | the prospectus of the Company dated 28 June 2017 |
| "Purchaser" | Wealthy Way International Finance Limited (富道國際金融有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Shareholder(s)" | the holder(s) of the Shares |
| "Share(s)" | the ordinary share(s) of HK$0.01 each in the capital of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

| | |
|---|---|
| "Target Company" | 深圳市浩森小額貸款股份有限公司 (Shenzhen Haosen Credit Joint Stock (Limited) Company*), a company established in the PRC with limited liability, a connected person of the Company |
| "Valuation Report" | the valuation report on 47% equity interests in the Target Company prepared by the Independent Valuer, as set out in Appendix V to this circular |
| "Vendor" | 廣東恒豐投資集團有限公司 (Guangdong Hengfeng Investment Group Limited*), a company established in the PRC with limited liability |
| "Wealthy Rise" | Wealthy Rise Investment Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Lo, which is directly interested in 75% of the issued share capital of the Company |
| "%" | per cent. |

*In the event of inconsistency, the English text of the circular, the notice of EGM and the enclosed form of proxy shall prevail over the Chinese text.*

* *For identification purposes only*

WEALTHY WAY

# Wealthy Way Group Limited
# 富道集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3848)**

*Executive Directors:*
Mr. Lo Wai Ho *(Chairman)*
Ms. Chan Shuk Kwan Winnie

*Non-executive Director:*
Mr. Xie Weiquan

*Independent Non-executive Directors:*
Mr. Ha Tak Kong
Mr. Ip Chi Wai
Ms. Hung Siu Woon Pauline

*Registered office:*
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Headquarters and principal place of business in Hong Kong:*
Room 3402
34/F, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

21 November 2018

*To the Shareholders:*

Dear Sir or Madam,

## (1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 47% EQUITY INTERESTS IN THE TARGET COMPANY; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

### INTRODUCTION

Reference is made to the Announcement in relation to the Acquisition.

On 22 August 2018 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company) entered into the Agreement with, among others, the Vendor and the Guarantor. Pursuant to the Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire 47% equity interests in the Target Company at the Consideration of RMB156,700,000 (subject to adjustment, where applicable).

The Acquisition constitutes a major and connected transaction for the Company under the Listing Rules. The purpose of this circular is to provide you with, among other things, (a) details of the Agreement; (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the transactions contemplated under the Agreement; (c) the letter of advice from Opus Capital to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Agreement; (d) the Valuation Report; and (e) a notice of the EGM.

## THE AGREEMENT

### Date

22 August 2018 (after trading hours)

### Parties

(1) the Vendor;

(2) the Purchaser;

(3) the Guarantor; and

(4) the Target Company.

### Subject matter to be acquired

Pursuant to the Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire 47% equity interests in the Target Company, subject to the terms and conditions of the Agreement. Prior to the Acquisition, the Target Company was owned as to 88.75% by the Vendor, 8% by CWW Leasing, 1.625% by Party A and 1.625% by Party B.

As disclosed in the announcement of the Company dated 9 May 2018, CWW Leasing, an indirect wholly-owned subsidiary of the Company, entered into a capital increase agreement with the Vendor, Party A and Party B, pursuant to which the relevant parties agreed to increase the registered capital of the Target Company from RMB300,000,000 to RMB400,000,000, of which CWW Leasing agreed to make cash contribution of RMB32,000,000 (the "**Capital Contribution**"). Since the completion of the aforesaid capital increase agreement, CWW Leasing has held 8% equity interests in the Target Company.

Upon Completion, the Target Company will be owned as to 55% by the Group, 41.75% by the Vendor, 1.625% by Party A and 1.625% by Party B. Accordingly, the Target Company will become an indirect non-wholly owned subsidiary of the Company, and the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Group.

**Consideration**

The Consideration shall be RMB156,700,000 (subject to adjustment, where applicable), which shall be settled in the following manners:

(a) a sum of RMB31,340,000, being the initial deposit of the Consideration, shall be payable to the Vendor within five (5) Business Days upon signing of the Agreement. Such initial deposit shall be refundable to the Purchaser in the event that the conditions precedent are not satisfied or (if applicable) waived on or before the Long Stop Date and Completion does not take place in accordance with the Agreement;

(b) a further sum of RMB15,670,000 shall be payable to the Vendor in cash on the date of Completion; and

(c) the remaining balance of the Consideration in the sum of RMB109,690,000 shall be satisfied by issuing the Promissory Note in favour of the Vendor (or its nominee) by the Purchaser on the date of Completion.

The Consideration was determined after arm's length negotiation between the Purchaser and the Vendor with reference to, among others, (i) the unaudited net asset value of the Target Company of approximately RMB416,747,000 as at 30 June 2018 *(Note)*; and (ii) the preliminary valuation on 47% equity interests in the Target Company as at 30 June 2018 prepared by the Independent Valuer.

The initial deposit of the Consideration under the Agreement was funded by the Group's internal resources. It is the current intention of the Company that the remaining balance of the Consideration will be funded by the Group's internal resources and/or financing through bank borrowing and/or equity fundraising as the Directors may deem appropriate at the relevant time. As at the Latest Practicable Date, the initial deposit of RMB31,340,000 had been transferred to the Vendor according to the Agreement.

*Adjustment to Consideration*

As agreed between the Vendor and the Purchaser in the Agreement,

(a) in the event that the audited net profit after tax of the Target Company prepared according to the PRC accounting standard for the financial year ending 31 December 2018 (the "**2018 Audited Profit**") is not less than RMB14,000,000 (the "**2018 Profit Condition**"), the Consideration shall be adjusted upwards by RMB19,600,000; and

*Note:* This is based on the unaudited management accounts of the Target Company as at 30 June 2018. For the audited net asset value of the Target Company as at 30 June 2018, please refer to the accountants' report on the Target Company on page II-5 of this circular.

(b) (i) conditional upon the satisfaction of the 2018 Profit Condition, in the event that the audited net profit after tax of the Target Company prepared according to the PRC accounting standard for the financial year ending 31 December 2019 (the "**2019 Audited Profit**") is not less than RMB16,000,000 (the "**2019 Profit Condition**"), the Consideration shall be adjusted further upwards by RMB19,600,000; or

(ii) in the event of failure to satisfy the 2018 Profit Condition, but the 2019 Audited Profit is not less than the sum of the amount of the 2019 Profit Condition and the shortfall in the amount of the 2018 Profit Condition, the Consideration shall be adjusted further upwards by RMB39,200,000.

The benchmarks for the 2018 Audited Profit and 2019 Audited Profit were determined after discussion between the management of the Company and the Vendor, having considered (i) the financial performance of the Target Company with a net profit of approximately RMB8.7 million for the year ended 31 December 2017 according to the PRC accounting standard; and (ii) the business prospect of the Target Company, with a view that the net profit of the Target Company would achieve annual growth rate of not less than 60% for the year ending 31 December 2018 and not less than 14% for the year ending 31 December 2019 based on PRC accounting standard. The parties expect a growth rate of not less than 60% in the 2018 Audited Profit on the following basis:

(i) The business performance of the Target Company for the seven months ended 31 July 2018 is satisfactory. The Target Company has already recorded a net profit of approximately RMB6.7 million for the seven months ended 31 July 2018 based on its unaudited management account according to the PRC accounting standard, which represents over 75% of the net profits for the year ended 31 December 2017. The parties are of the view that the business performance of the Target Company in the second half of 2018 would be no less favourable than that in the first half of 2018.

(ii) In the microfinance industry, companies with more registered capital generally have larger business scales, as they have abundant financial resources to handle more loan transactions. The registered capital of the Target Company has been increased by approximately 33.3% from RMB300,000,000 to RMB400,000,000 in mid-2018. The capital increase provides the Target Company with more resources, which allows the Target Company to grant larger amount of loans and facilitate its business expansion. Based on the aforesaid, earnings of the Target Company may increase further since June 2018.

The parties expect a growth rate of not less than 14% in the 2019 Audited Profit, which is relatively lower when compared with the 2018 Audited Profit, for the following reasons:

(i) The Target Company would benefit from the synergy effect brought by the Acquisition as disclosed in the paragraph headed "Reasons for and Benefits of the Acquisition" below, leading to a potentially steady growth in its business.

(ii) Notwithstanding the reason set out in paragraph (i) above, the shareholders of the Target Company currently have no intention to make further increase in the registered capital of the Target Company, this would, to a certain extent, limit the growth rate.

During the three years ended 31 December 2017 and the six months ended 30 June 2018, no item which was non-recurring, extraordinary, or not in the ordinary and usual course of business of the Target Company was recorded in the audited accounts of the Target Company. As such, the Directors do not expect item of similar nature will be recorded in the audited accounts of the Target Company in determining the 2018 Audited Profit and 2019 Audited Profit, and item of similar nature, if any, will be excluded from the 2018 Audited Profit and 2019 Audited Profit for the purpose of consideration adjustment.

The Purchaser shall settle the aforesaid amount within ten (10) Business Days upon issuing of the relevant audited financial statements of the Target Company for the respective financial years by the independent auditor, provided that the audited profit as shown in the relevant audited financial statements of the Target Company shall satisfy the profit condition in the corresponding financial year set out above.

The additional amount to the Consideration payable by the Purchaser in respect of the aforesaid profit conditions shall in no circumstances exceed RMB39,200,000 in total. The Purchaser shall under no obligation to make such additional payment without the Target Company's achievement of the 2018 Profit Condition and/or the 2019 Profit Condition and such mechanism of adjustment to Consideration will not affect Completion and the Purchaser's (or its designated entity's) legal ownership of the 47% equity interests in the Target Company after Completion.

According to the Valuation Report, the value of 47% equity interests in the Target Company was approximately RMB195.0 million as at 30 June 2018 (the "**Valuation**"). The initial Consideration of RMB156,700,000 represents a discount of approximately 19.6% to the appraised value in the Valuation. Conditional on the Target Company having met both the 2018 Profit Condition and the 2019 Profit Condition, the Consideration will be adjusted upwards to RMB195,900,000 (the "**Adjusted Consideration**"), which is comparable to the appraised value in the Valuation.

*Views of the Directors*

At the time of considering the Acquisition and entering into the Agreement on 22 August 2018, based on the then latest available financial information of the Target Company, the unaudited net asset value of the Target Company for the six months ended 30 June 2018 was approximately RMB416,747,000. The implied consideration-to-net asset value multiples of the Consideration and the Adjusted Consideration are approximately 0.8 times and 1.0 times, respectively. The Board considers that the aforesaid consideration-to-net asset value multiples implied by the Consideration and the Adjusted Consideration are reasonable after considering the consideration-to-net asset value multiples of other comparable companies selected by the Independent Valuer adopting the market-based approach in the Valuation Report which range from approximately 0.92 times to 1.86 times.

The Directors are further of the view that, the setting of the benchmark of the 2018 Audited Profit and 2019 Audited Profit as well as the mechanism on adjustment to Consideration are favourable to the Company. As disclosed in the preceding paragraphs, the initial Consideration of RMB156,700,000 represents a discount of approximately 19.6% to the appraised value in the Valuation. By settling the initial Consideration, the Company will be able to obtain the legal ownership of 55% equity interests in the Target Company upon Completion. Under the mechanism on adjustment to Consideration, the Purchaser is under no additional payment obligation if the Target Company fails to meet the 2018 Profit Condition and/or 2019 Profit Condition, and there is no guarantee that the Target Company will be able to meet the 2018 Profit Condition and/or 2019 Profit Condition which will in turn trigger the Purchaser's additional payment obligation.

For the sake of clarity, in the event that the Target Company satisfies the 2018 Profit Condition but incurs net loss after tax for the financial year ending 31 December 2019, there will be no refund in respect of the adjustment made to the Consideration under the 2018 Profit Condition. Under such circumstances, the Consideration having adjusted to RMB176,300,000 still represents a discount of approximately 9.6% to the appraised value in the Valuation. Given the aforesaid discount of the Consideration to the appraised value in the Valuation and that the Company would be able to benefit from the Acquisition in the foreseeable future as disclosed in the paragraph headed "Reasons for and Benefits of the Acquisition" below, the Directors consider that the non-refundable nature of the adjustment to Consideration is fair and reasonable.

Based on the aforesaid, the Directors consider that the Consideration and the adjustment to Consideration to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**Conditions precedent**

Completion is conditional upon the following conditions being satisfied or (if applicable) waived by the Purchaser on or before the Long Stop Date:

(a) the Purchaser having completed the due diligence on the Target Company and being reasonably satisfied with the results of the due diligence, including the legal, financial and business aspects of the Target Company;

(b) the Announcement having been published, and this circular having been despatched by the Company as required under the Listing Rules, and no objection having been raised by the Stock Exchange against the Acquisition;

(c) the passing by the Independent Shareholders at the EGM to be convened and held of the necessary ordinary resolution to approve the Agreement and the transactions contemplated thereunder;

(d) the legal opinion having been issued by the PRC legal adviser designated by the Purchaser, confirming:

(i) the due incorporation and subsistence of the Target Company, and fully paid up of its share capital; and

(ii) the Target Company's possession of all necessary approvals, permits and licences issued by the relevant government authorities in respect of its incorporation, business operation and change in shareholding;

(e) the provision of all the aforesaid approvals, permits and licences of the Target Company by the Vendor, including but not limited to the approval letters respectively issued by 深圳市人民政府金融發展服務辦公室 (Shenzhen Municipal Government Financial Development Services Office*) and 深圳市市場監督管理局 (The Market Supervision Administration of Shenzhen Municipality*) in relation to the changes of shareholding and directors in the Target Company as a result of the Acquisition;

(f) the audited financial statements of the Target Company for the three years ended 31 December 2017 and the six months ended 30 June 2018 having been issued by an independent auditor as appointed by the Purchaser in accordance with the Hong Kong Financial Reporting Standards;

(g) the Valuation Report having been issued by the Independent Valuer according to international standards; and

(h) the warranties provided by the Vendor under the Agreement remaining true, accurate and complete in all material respects.

Neither the Vendor nor the Purchaser shall have the right to waive any of the conditions set out in paragraphs (b), (c), (e), (f), (g) and (h) above. The Purchaser may at its discretion waive any of the conditions set out in paragraphs (a) and (d) above. If the above conditions have not been fulfilled or waived (as the case may be) on or before the Long Stop Date, the Agreement shall be terminated and the Vendor shall immediately upon termination of the Agreement refund the initial deposit of RMB31,340,000 received to the Purchaser, whereupon the relevant rights and obligations under the Agreement shall have no further force and effect and no party to the Agreement shall have any liability under them (without prejudice to the rights of the parties to the Agreement in respect of any antecedent breaches).

As at the Latest Practicable Date, (i) save for conditions (d), (f) and (g) above, none of the conditions had been fulfilled; and (ii) the Purchaser had no intention to waive the condition set out in paragraph (a) above.

**Guarantee**

The Guarantor has agreed to warrant and guarantee to the Purchaser the due performance by the Vendor and the Target Company of all their obligations under the Agreement and the transactions contemplated thereunder.

**Completion**

Completion shall take place on the fifth (5th) Business Day following the day on which all conditions set out in the section headed "Conditions precedent" above are fulfilled or waived by the Purchaser (as the case may be).

Upon Completion, the Company will indirectly own an aggregate of 55% equity interests in the Target Company, and the Target Company will become an indirect non-wholly owned subsidiary of the Company. Accordingly, the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Group.

**Promissory Note**

The Purchaser has agreed to issue a Promissory Note with principal face value of RMB109,690,000 and a 60-month term at 3.5% interest per annum in favour of the Vendor (or its nominee), to settle part of the Consideration on the date of Completion. The Company may at its discretion early redeem a part of or the whole outstanding amount under the Promissory Note within the term of the Promissory Note.

The terms of the Promissory Note was determined having considered nine notifiable transactions involving settlement of the consideration with the issuance of promissory notes, as announced by the companies listed on the Stock Exchange during the period commencing in 2018 and up to the date of the Agreement. The interest rates of these comparables ranged from nil to 10% per annum, and the average interest rate of which was approximately 3.0% per annum. The interest rate of the Promissory Note of 3.5% per annum falls within the above range, which is slightly above the average rate of 3.0% per annum but much below the maximum rate of 10.0% per annum. Although the maturity of the Promissory Note of five years exceeds the range from one to three years in the market, the Directors are of the view that a longer maturity period is more favourable to the Company as the Company may utilise its financial resources in a more flexible manner. Based on the aforesaid, the Directors are of the view that the terms of the Promissory Note, including the interest rate and maturity, are fair and reasonable.

**INFORMATION ON THE TARGET COMPANY**

The Target Company is a company established in the PRC with limited liability on 26 May 2009. It is a financial institution primarily engaged in the provision of small loans to its customers in Shenzhen, the PRC. As at the Latest Practicable Date, the Target Company operated eight branches throughout Shenzhen, the PRC. The Target Company is under the supervision of, and granted a small loan company license for its operation by 深圳市人民政府金融發展服務辦公室 (Shenzhen Municipal Government Financial Development Services Office*). Prior to the Acquisition, the Target Company was owned as to 88.75% by the Vendor, 8% by CWW Leasing, 1.625% by Party A and 1.625% by Party B. As the Vendor is owned as to 80% by the Guarantor, who is Mr. Lo's sibling and Mr. Xie's uncle, each of the Vendor and the Guarantor is a connected person of the Company. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, (i) each of Party A and Party B is an Independent Third Party; (ii)

Party A is a director of the Target Company while Party B is a private investor who does not hold any position in the Target Company; and (iii) Party A is experienced in corporate management and financial investment while Party B has over ten years of experience in the banking and finance industry.

The Target Company has implemented and adopted the following business plan:

**Business strategies**

***Provision of diversified small loan products to different customers***

The management of the Target Company perceives that the financing needs of individuals and small private companies have long been underserved in the PRC's banking system. Therefore, the Target Company has designed a variety of small loan products which are tailor-made for different kinds of customers. Among different products offered by the Target Company, the maximum loan amount, repayment term and interest rate for individuals vary with, among other things, their occupation, age, monthly income, credit background, financial status, etc. Customers may choose the suitable product that serves their financing needs with flexibility.

***Continuous investment in and strengthening the application of information technology***

The Target Company has its own custom-designed office automation system for managing operational efficiency and reducing risks associated with its operation. Such automation system is incorporated with multiple functionality modules to facilitate, among others, ongoing supervision of the loan application and review process, loan portfolio, compliance status and to enhance internal and external communication. The Target Company will continue to invest in and expand the application of information technology to its daily operation, particularly in aspects such as design of loan products, customer analysis, sales and marking, customer services and risk management. The management of the Target Company believes that this strategy may enhance the accessibility of the loan products, which may in turn increase the customer base of the Target Company.

***Strengthening front and back office operational supports***

In order to facilitate its business expansion, the Target Company has been recruiting suitable employees to support various operational functions, including but not limited to customer services, risk management and finance and accounting. In addition, the Target Company has been and will actively recruiting suitable and experienced IT professionals to maintain and develop its information technology and office automation system, including its sales and marketing platform and risk management system.

**Customers**

The customers of the Target Company are predominantly individuals, with certain small private enterprises in the PRC.

**Products and services**

Diversified small loan products are tailored-made for different kinds of customers to serve their financing needs. In 2018, the loan products provided by the Target Company are primarily unsecured loans, with a few collateralized loans.

The loans offered by the Target Company are term loan, which is a fixed amount of short-term loan with maturity generally within 12 months, at an agreed interest rate.

**Market and competition**

The management of the Target Company is of the view that the microfinance industry in the PRC is highly fragmented and competitive, as the entry barriers can be overcome by participants who satisfy the minimum registered capital requirement, fulfill the relevant approval and registration requirements, and with local business connection. The Target Company faces various competitions from other microfinance companies of different sizes in the PRC, which may be significantly larger and have greater financial resources than the Target Company. The Target Company distinguishes itself from its competitors through providing tailor-made and diversified loan products, with emphasis on the use of information technology in its daily operation.

**Sales and marketing**

The Target Company advertises and provides its small loan products through its eight branches in Shenzhen. The Target Company will continue to expand its customer base by enhancing its market penetration by the above means.

**Human resources**

The management team of the Target Company has substantial experience in the banking and small loan financing industry, which has contributed to the development of the Target Company. The Target Company treasures its staff as valuable assets. Therefore, regular staff trainings are provided to further their skills and knowledge.

**Capital commitments**

The Target Company did not have any material capital commitment as at 31 December 2015, 2016 and 2017 and 30 June 2018, and currentely has no intention or plan to make any capital commitment after Completion.

Set out below is the summary of the key financial information extracted from the accountants' report on the historical financial information of the Target Company for the three years ended 31 December 2017 and the six months ended 30 June 2018 as set out in Appendix II to this circular:

| | For the year ended 31 December 2015 (audited) *RMB'000* | For the year ended 31 December 2016 (audited) *RMB'000* | For the year ended 31 December 2017 (audited) *RMB'000* | For the six months ended 30 June 2018 (audited) *RMB'000* |
|---|---|---|---|---|
| Net profit/(loss) before taxation | (37,128) | 60,451 | 10,598 | 5,302 |
| Net profit/(loss) after taxation | (28,185) | 48,304 | 12,347 | 3,977 |

| | As at 31 December 2015 (audited) *RMB'000* | As at 31 December 2016 (audited) *RMB'000* | As at 31 December 2017 (audited) *RMB'000* | As at 30 June 2018 (audited) *RMB'000* |
|---|---|---|---|---|
| Net assets | 230,438 | 278,742 | 291,089 | 395,066 |

Please refer to Appendix II to this circular which sets out the audited financial information on the Target Company.

**INFORMATION ON THE PURCHASER AND THE GROUP**

The Purchaser is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company. It is principally engaged in investment holding.

The Group is principally engaged in the provision of financial leasing, financial leasing related factoring and advisory services in the PRC.

**INFORMATION ON THE VENDOR**

The Vendor is a company established in the PRC with limited liability and is principally engaged in, among others, (i) property investment and development; (ii) provision of pawn loans and mortgage loans; and (iii) provision of small loans by virtue of its shareholding in the Target Company. It is owned as to 80% by the Guarantor and 20% by two individuals who are Independent Third Parties.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor will continue to be engaged in the provision of pawn loans and mortgage loans upon Completion. The Company has no intention to acquire such business from the Vendor, on the basis that (i) specific licence is required for the operation of such business, (ii) the scale of operation of such business is relatively small, with aggregate net profits of approximately RMB450,000 only for the two latest financial years; (iii) the management of the Enlarged Group lacks experiences in inspection and valuation of the collaterals for the security of the loans, which include but not limited to gold and jewellery; and (iv) the Directors, as advised by PRC legal adviser, understand that there appears to be no legal basis upon which the Company as a foreign-invested company can directly or indirectly own a pawn-loan business in the PRC except those in the free trade zone area.

Prior to Completion, the Guarantor will enter into a deed of non-competition in favour of the Enlarged Group, pursuant to which he will undertake that, save for his indirect interests in a company controlled by the Vendor which was engaged in the provision of pawn loans and mortgage loans as disclosed above, he will not, and shall procure each of his close associates not to, whether directly or indirectly, be interested in or engage in any business which competes or is likely to compete with the business of the Enlarged Group. The said deed of non-competition will cease to have any effect upon the earliest of the date on which:

(i) (a) Mr. Lo and his close associates, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of the Company or cease to be deemed as a controlling shareholder of the Company (as defined under the Listing Rules); and (b) Mr. Lo ceases to be a Director; or

(ii) the Shares cease to be listed on the Stock Exchange.

**REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group will obtain controlling interest in the Target Company as a result of the Acquisition. As the Target Company is primarily engaged in the provision of small loans in the PRC, the Directors believe that the entering into of the Agreement will allow the Group to further expand its investments to the financial market in Shenzhen and expand its business operation by providing not only financial leasing, financial leasing related factoring, and advisory services to its corporate customers, but also small loans to individual customers and other small private companies, thereby broadening its customer base. The Directors expect that that the Acquisition may create synergy with the existing principal businesses of the Group in the following aspects:

(i) the Group is able to expand its sales channel through the eight additional branches of the Target Company in Shenzhen;

(ii) there may be potential cross-selling opportunities among the customer base of the Group and the Target Company. For instance, small private companies may decide to obtain financing by means of small loans or, where applicable, by way of financial leasing;

(iii) resources of the Group will be allocated in a more efficient and effective manner. For instance, administrative and financial resources will be shared between the Target Company and the Group; and

(iv) experience of the Group's management team will be applied towards the Target Company.

The Acquisition, when completed, is also expected to bring positive influence to the Group's financial results.

Taking into consideration the above reasons for and benefits of the Acquisition to the Group, the Directors (including the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee on pages 22 to 23 of this circular) are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole, and that it is in the ordinary and usual course of business of the Group. The Directors are also of the view that the terms of the Agreement, including the Consideration, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**Management expertise and experience of the Directors and senior management**

The Directors consider that the skills and expertise required for the management and business operation of the Group are also applicable to the Target Company. The business activities of the Target Company and the Group are similar in the aspect that they are both credit-related in nature and involve planning and design of loan, credit analysis, loan administration and risk management. The majority of the Directors and senior management of the Company has over 10 years of experience in corporate management, financial leasing or banking and finance industry. In view of the above, the Directors and senior management of the Company have sufficient expertise and experience related to the principal business of the Target Company and are competent in managing and operating the Target Company after Completion. In particular:

(i) Ms. Chan Shuk Kwan Winnie, an executive Director, has over 20 years of experience in the banking and finance industry, and specializes in credit analysis and loan administration.

(ii) Mr. Xie, a non-executive Director, has extensive experience in finance, investment and asset management. He served as the manager of finance of the Vendor from September 2009 to December 2012, who was responsible for overseeing business development and operational management of the Target Company during such period.

## FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Company will indirectly own 55% equity interests in the Target Company, and the Target Company will become an indirect non-wholly owned subsidiary of the Company. Accordingly, the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Group in accordance with applicable accounting standards.

### Effects on assets and liabilities

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming that Completion had taken place on 30 June 2018, (i) the total assets would have increased by approximately RMB478.1 million to approximately RMB1,607.0 million; (ii) the total liabilities would have increased by approximately RMB285.4 million to approximately RMB948.2 million; and (iii) the net assets of the Group would have increased by approximately RMB192.7 million to approximately RMB658.8 million.

### Effects on earnings

According to the accountants' report on the Target Company set out in Appendix II to this circular, the audited revenue and the net profit after taxation of the Target Company for the year ended 31 December 2017 were approximately RMB57.1 million and approximately RMB12.3 million, respectively, whereas the audited revenue and the net profit after taxation of the Target Company for the six months ended 30 June 2018 were approximately RMB41.0 million and RMB4.0 million, respectively. The Directors expect that the Acquisition will contribute towards broadening the revenue and earnings base for the Enlarged Group in the future.

## IMPLICATIONS UNDER THE LISTING RULES

As the Vendor is owned as to 80% by the Guarantor, who is Mr. Lo's sibling and Mr. Xie's uncle, each of the Vendor and the Guarantor is a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

At the Board meeting held to approve the Agreement, Mr. Lo and Mr. Xie, who are family members of the Guarantor, were considered to be interested in the Acquisition, and have abstained from voting on the relevant Board resolution relating to the Agreement and the transactions contemplated thereunder. Apart from the aforesaid, none of the Directors has any material interest in the Acquisition and is required to abstain from voting on the relevant Board resolution approving the Agreement and the transactions contemplated thereunder.

According to Rule 14.22 of the Listing Rules, the Stock Exchange will aggregate a series of transactions and treat them as if they were one transaction if they are all completed within a 12-month period or are otherwise related. In this regard, the Capital Contribution made by

CWW Leasing to the Target Company in May 2018 and the Consideration shall be aggregated in computing the applicable percentage ratios (as defined in the Listing Rules) in accordance with Rule 14.22 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition, on a standalone basis and when aggregated with the Capital Contribution, is more than 25% but are all less than 100%, the Acquisition also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and therefore will be subject to the notification, announcement, circular and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Any Shareholders who are involved in or interested in the Acquisition are required to abstain from voting on the relevant ordinary resolution approving the Agreement and the transactions contemplated thereunder. As Mr. Lo is a family member of the Guarantor, he is considered to be interested in the Acquisition. As at the Latest Practicable Date, Wealthy Rise, a company wholly owned by Mr. Lo, held 108,000,000 Shares, representing 75% of the issued share capital of the Company. Accordingly, Wealthy Rise will abstain from voting on the relevant ordinary resolution in relation to the Agreement and the transactions contemplated thereunder to be proposed at the EGM. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, save for the aforementioned, no Shareholder (or his/her/its associates) has any material interest in the Acquisition and will be required to abstain from voting at the EGM.

**THE EGM**

Set out on pages EGM-1 to EGM-3 of this circular is a notice convening the EGM to be held at 24/F, Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 7 December 2018 at 4:30 p.m. at which the relevant resolution will be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder by the Independent Shareholders.

The voting in relation to the Agreement and the transactions contemplated thereunder at the EGM will be conducted by way of poll at the EGM, and an announcement on the results of the EGM will be made by the Company after the EGM.

Any Shareholder with a material interest in the proposed transactions and his/her/its associates will abstain from voting on the relevant resolution approving the Agreement and the transactions contemplated thereunder. Wealthy Rise will abstain from voting on the relevant ordinary resolution to be proposed at the EGM.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, no other Shareholders will be required to abstain from voting at the EGM to be convened for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, there was (i) no voting trust or other agreement or arrangement or understanding entered into or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the same to 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, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM 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 EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing the proxy shall be deemed to be revoked.

In order to be eligible to attend and vote at the EGM, all unregistered holders of the Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, 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, 5 December 2018.

**RECOMMENDATION**

The Independent Board Committee has been established to advise the Independent Shareholders as to, among other things, whether the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Group and the Shareholders as a whole, and to recommend how the Independent Shareholders should vote at the EGM. Opus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

The letter from Opus Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 59 of this circular and the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 22 to 23 of this circular.

The Independent Board Committee, having taken into account the advice of Opus Capital, is of the opinion that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and therefore recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

The Board considers that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

You are advised to read carefully the letter from the Independent Board Committee set out on pages 22 to 23 of this circular. You are also advised to read carefully the letter from Opus Capital containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, as set out on pages 24 to 59 of this circular.

## ADDITIONAL INFORMATION

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

By order of the Board
**Wealthy Way Group Limited**
**Lo Wai Ho**
*Chairman*

富道
WEALTHY WAY

**Wealthy Way Group Limited**

**富道集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3848)**

21 November 2018

*To the Independent Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 47% EQUITY INTERESTS IN THE TARGET COMPANY

We refer to the circular dated 21 November 2018 issued by the Company (the "**Circular**"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to, among other things, whether the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Group and the Shareholders as a whole, and to recommend how the Independent Shareholders should vote at the EGM. Opus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 21 of the Circular, and the letter from Opus Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Agreement and the transactions contemplated thereunder, as set out on pages 24 to 59 of the Circular.

Having taken into account of the advice of Opus Capital, we consider that the terms of the Agreement are on normal commercial terms, fair and reasonable, the Acquisition is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreement and transactions contemplated thereunder.

Yours faithfully,
The Independent Board Committee of
**Wealthy Way Group Limited**

| | | |
|---|---|---|
| **Mr. Ha Tak Kong** | **Mr. Ip Chi Wai** | **Ms. Hung Siu Woon Pauline** |
| *Independent non-executive Director* | *Independent non-executive Director* | *Independent non-executive Director* |

*Set out below is the text of a letter received from Opus Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.*

Opus Capital Limited
創富融資有限公司

18th Floor, Fung House
19–20 Connaught Road Central
Central, Hong Kong

21 November 2018

To: *The Independent Board Committee and the Independent Shareholders of Wealthy Way Group Limited*

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 47% EQUITY INTERESTS IN THE TARGET COMPANY**

**INTRODUCTION**

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder. Details of the Agreement and the transactions contemplated thereunder are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 21 November 2018 (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 unless the context requires otherwise.

On 22 August 2018 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company) entered into the Agreement with, among others, the Vendor and the Guarantor. Pursuant to the Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire 47% equity interests in the Target Company at the Consideration of RMB156,700,000 (subject to adjustment, where applicable). The Consideration shall be settled: (a) by way of cash in an amount of RMB47,010,000; and (b) by way of issue of the Promissory Note by the Purchaser for the remaining balance of RMB109,690,000. The Guarantor has also agreed to warrant and guarantee to the Purchaser the due performance by the Vendor and the Target Company of all their obligations under the Agreement and the transactions contemplated thereunder.

As the Vendor is owned as to 80% by the Guarantor, who is Mr. Lo's sibling and Mr. Xie's uncle, each of the Vendor and the Guarantor is a connected person of the Company. The Acquisition therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. According to Rule 14.22 of the Listing Rules, the Stock Exchange will aggregate a series of transactions and treat them as if there were one transaction if they are all completed within a 12-month period or are otherwise related. In this regard, the Capital Contribution (as defined in the Letter from the Board) made by CWW Leasing to the Target Company in May 2018 and the Consideration shall be aggregated in computing the applicable percentage ratios (as defined in the Listing Rules) in accordance with Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition, on a standalone basis and when aggregated with the aforesaid Capital Contribution, is more than 25% but are all less than 100%, the Acquisition also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and therefore will be subject to the notification, announcement, circular and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

At the Board meeting held to approve the Agreement and the transactions contemplated thereunder, save for Mr. Lo and Mr. Xie (being family members of the Guarantor) who were considered to be interested in the Acquisition, and have abstained from voting on the relevant Board resolution relating to the Agreement and the transactions contemplated thereunder, no other Director was required to abstain from voting at the Board meeting.

Any Shareholders who are involved in or interested in the Acquisition are required to abstain from voting on the relevant ordinary resolution approving the Agreement and the transactions contemplated thereunder. As Mr. Lo is a family member of the Guarantor, he is considered to be interested in the Acquisition. As at the Latest Practicable Date, Wealthy Rise, a company wholly owned by Mr. Lo, held 108,000,000 Shares, representing 75% of the issued share capital of the Company. Accordingly, Wealthy Rise will abstain from voting on the relevant ordinary resolution in relation to the Agreement and the transactions contemplated thereunder to be proposed at the EGM. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, save for the aforementioned, no other Shareholder (or his/her/its associates) is required to abstain from voting at the EGM.

**THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee of the Company comprising Mr. Ha Tak Kong, Mr. Ip Chi Wai and Ms. Hung Siu Woon Pauline, being all the independent non-executive Directors, has been formed to advise and make recommendations to the Independent Shareholders in respect of the terms of the Agreement. Our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in the same respect.

Our role as the independent financial adviser is to advise the Independent Board Committee and the Independent Shareholders as to: (i) whether the terms of the Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) whether the Acquisition was entered into in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote on the resolution in relation to the Agreement and the transactions contemplated thereunder at the EGM.

## OUR INDEPENDENCE

We do not have any relationship with, or interest in, the Group, the Vendor, the Guarantor or any other parties that could reasonably be regarded as relevant to our independence as at the Latest Practicable Date. Apart from normal independent financial advisory fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, the Vendor, the Guarantor or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

## BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

(i) the Company's interim report for the six months ended 30 June 2018 (the "**2018 Wealthy Way Interim Report**");

(ii) the Company's annual report for the year ended 31 December 2017 (the "**2017 Wealthy Way Annual Report**");

(iii) the accountants' report of the Target Company for the three years ended 31 December 2015, 2016 and 2017 and six months ended 30 June 2018, as set out in Appendix II to the Circular (the "**Target Company Accountants' Report**");

(iv) the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular;

(v) the Valuation Report in relation to the valuation (the "**Valuation**") of the 47% equity interests in the Target Company as at 30 June 2018 (the "**Valuation Date**") issued by the Independent Valuer, as set out in Appendix V to the Circular;

(vi) the Agreement; and

(vii) other information as set out in the Circular.

We have also discussed the valuation methodology, bases and assumptions adopted for the Valuation with the Independent Valuer.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest

Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the Agreement, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

### 1. Business of the Group

The Company was listed on the Main Board of the Stock Exchange (stock code: 3848) on 21 July 2017 (the "**Listing**"). The Group is based in Shenzhen and principally engaged in the provision of financial leasing, financial leasing related factoring and advisory services in the PRC. The Group's major corporate customers include, among others, airline companies, healthcare service providers, public utilities providers, energy saving equipment providers and manufacturers. These customers mainly view financing leasing as an alternative source of financing to traditional sources of financing.

As disclosed in the 2017 Wealthy Way Annual Report, the revenue of the Group was mainly derived from: (i) financial leasing; (ii) financial leasing related factoring; (iii) financial leasing advisory services income; and (iv) other financial advisory services income.

The Group mainly provides two types of financing leasing services (i.e. direct financial leasing and sale-leaseback) through its indirect wholly-owned subsidiary, CWW Leasing. Under a typical direct financial leasing, the Group, as the lessor, would purchase the assets under the lease agreement from the equipment manufacturer/supplier for its customer, who is the lessee. The Group would then lease the assets to the customer for its use in accordance with the terms and conditions of the lease agreement. During the lease term, the customer remains in possession of the leased assets and repays the purchase amount of the assets, interest and other fees to the Group. The ownership of the assets would be transferred to the customer at a nominal consideration upon the expiry of the lease term.

Under a typical sale-leaseback, the customer, as the lessee, would sell the existing assets to the Group, and then the Group, as the lessor, would lease the assets back to the customer for its use in accordance with the terms and conditions of the lease agreement. Likewise, during the lease term, the customer remains in possession of the leased assets and repays the purchase amount of the assets, interest and other fees to the Group. The ownership of the assets would be transferred to the customer at a nominal consideration upon the expiry of the lease term.

**2. Financial information of the Group**

The following is a summary of the financial results of the Group for each of the two years ended 31 December 2016 ("**FY2016**") and 2017 ("**FY2017**"), the six months ended 30 June 2018 ("**HY2018**") and the six months ended 30 June 2017 ("**HY2017**"), as extracted from the 2017 Wealthy Way Annual Report and the 2018 Wealthy Way Interim Report:

**Table 1: Highlight of the financial results of the Group**

| | **Audited Year ended 31 December** | | **Unaudited Six months ended 30 June** | |
|---|---|---|---|---|
| | **2016** | **2017** | **2017** | **2018** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| Revenue | 71,243 | 96,587 | 42,666 | 35,895 |
| Other Income | 38 | 1,673 | 899 | 1,262 |
| Profit before tax | 42,215 | 39,734 | 14,336 | 11,802 |
| Profit for the year attributable to the Shareholders | 29,560 | 26,388 | 8,694 | 8,571 |
| Net profit margin (%) | 41.5 | 27.3 | 20.4 | 23.9 |

*Source: 2017 Wealthy Way Annual Report and 2018 Wealthy Way Interim Report*

Revenue generated from the financial leasing related services has contributed over 80% of the Group's total revenue for FY2017.

The revenue of the Group significantly increased by approximately 35.7% from approximately RMB71.2 million in FY2016 to approximately RMB96.6 million in FY2017. The increase was mainly due to the Group's business expansion and new financial leasing secured from new customers during the year.

The net profit of the Group decreased from approximately RMB29.6 million in FY2016 to approximately RMB26.4 million in FY2017, representing a decrease of approximately 10.8%. The decrease was mainly due to: (i) an increase of employee benefit expenses of approximately RMB2.1 million or 39.6% from approximately RMB5.3 million in FY2016 to approximately RMB7.4 million in FY2017 resulted from the increase in manpower along with the business expansion; and (ii) the incurrence of listing expense in FY2017 of approximately RMB9.0 million, which was non-recurring in nature.

The revenue decreased by approximately 15.9% from approximately RMB42.7 million in HY2017 to approximately RMB35.9 million for HY2018. The decrease was mainly due to the decrease in financial leasing advisory income in HY2018 where it decreased from approximately RMB14.1 million in HY2017 to approximately RMB1.1 million HY2018, representing a significant drop of approximately 92.2%. As discussed with the Management, we understand that the Company has adopted a conservative business strategy in recent years, shifting the focus on maintaining business relationships with existing customers and renewing individual contracts with them instead of planning and developing new financing plans for new customers. As advisory income as a percentage of the transaction or financing size are typically charged to new customers for planning and developing new financing plans, the change in business strategy meant less advisory income for the Group. Although the shift in the business strategy caused decline in the financial leasing advisory income, the Management highlighted that the core revenue contributed by the interest income from the renewal of individual contracts would remain stable.

Set out below is the summary of the financial positions of the Group as at 31 December 2017 and 30 June 2018, as extracted from the 2018 Wealthy Way Interim Report:

**Table 2: Highlight of the financial positions of the Group**

| | **Audited 31 December 2017** *(RMB'000)* | **Unaudited 30 June 2018** *(RMB'000)* |
|---|---|---|
| Non-current assets | 701,043 | 575,328 |
| Current assets | 506,552 | 553,568 |
| Non-current liabilities | 585,494 | 515,435 |
| Current liabilities | 135,600 | 147,391 |
| Cash and cash equivalents | 55,973 | 21,503 |
| Net assets | 486,501 | 466,070 |

*Source: 2017 Wealthy Way Annual Report and 2018 Wealthy Way Interim Report*

Total assets of the Group decreased from approximately RMB1,207.6 million as at 31 December 2017 to approximately RMB1,128.9 million as at 30 June 2018, representing a decrease of approximately RMB78.7 million or 6.5%.

As at 30 June 2018, the Group had a significant portion of its total assets, of approximately RMB1,053.0 million or 93.3% of its total assets, in loan and account receivables. As at 30 June 2018, over 70% of the loan and account receivables was attributable to the financial leasing receivables. Financial leasing receivables are mainly secured by the leased assets which are equipment and machinery used in airline, medical, manufacturing, green energy, public utilities and other transportation industries, certain guarantees and customers' deposits.

Net asset value ("**NAV**") attributable to the Shareholders as at 30 June 2018 was approximately RMB466.1 million, representing a decrease of approximately RMB20.4 million or 4.2% from approximately RMB486.5 million as at 31 December 2017.

The Group generally finances its operation with internal resources and banking facilities granted by banks in the PRC. The Group also utilised the net proceeds from the Listing during FY2017. The cash and cash equivalents of the Group were approximately RMB21.5 million as at 30 June 2018, representing a decrease of approximately RMB34.5 million or 61.6% from approximately RMB56.0 million as at 31 December 2017.

As stated in the 2018 Wealthy Way Interim Report, as the Directors anticipated that the Group's business in the PRC will be impacted by the effects of the higher borrowing costs from banks due to reform promoted by 中國人民銀行 (the People's Bank of China*) (the

“**PBOC**”) resulting in tightening of market liquidity, the Group is also actively exploring new business opportunities to further expand its income stream, and the Acquisition can be seen as one of such new business ventures.

**3. Reasons for and benefits of the Acquisition**

The Company first announced on 9 May 2018 that it seized the opportunity to expand its investments to the financing market in Shenzhen by investing in 8% equity interests in the Target Company through CWW Leasing, the Company’s indirect wholly-owned subsidiary, by way of a RMB32,000,000 cash contribution. As the Target Company is principally engaged in providing micro-financing in the PRC, the Board were of the view that such investment would be synergistic with the Company’s principal operations.

The Acquisition, which was announced on 22 August 2018, can be seen as an extension to the first investment, where the Company seeks to consolidate control in the Target Company. The Board is taking an optimistic view of the prospects of the micro-financing industry in the PRC. As stated in the section headed “Reasons for and benefits of the Acquisition” in the Letter from the Board, the Directors believe that the entering into of the Agreement will allow the Group to further expand its investments to the financial market in Shenzhen and expand its business operation by providing not only financial leasing, financial leasing related factoring, and advisory services to its corporate customers, but also small loans to individual customers and other small private companies, thereby broadening its customer base. The Directors expect that the Acquisition may create synergy with the existing principal business activities of the Group in the following aspects:

(i) the Group is able to expand its sales channel through the eight additional branches of the Target Company in Shenzhen;

(ii) there may be potential cross-selling opportunities among the customer base of the Group and the Target Company. For instance, small private companies may decide to obtain financing by means of small loans or, where applicable, by way of financial leasing;

(iii) resources of the Group will be allocated in a more efficient and effective manner. For instance, administrative and financial resources will be shared between the Target Company and the Group; and

(iv) experience of the Group’s management team will be applied towards the Target Company.

The Acquisition, when completed, is also expected to bring positive influence to the Group’s financial results. As it is in line with the Group’s focus to explore new business opportunities as stated in the 2018 Wealthy Way Interim Report and based on the above, we concur with the Board’s view: (i) on the rationale of the Acquisition; and (ii) that the Acquisition is in the ordinary and usual course of business of the Group.

**4. Industry outlook**

Micro-finance is the provision of small and micro loan services to small and medium enterprises ("**SMEs**"), micro-enterprises and individual proprietors, many of which require funding for the operations but are not able to meet the criteria to obtain financing from larger commercial banks or traditional financial institutions as they generally have less established business track record, limited financial resources or lower borrowing capacity than larger enterprises.

In China, SMEs and micro-enterprises play an important role in the economic growth and make significant contribution to employment and outputs. According to 中國證券日報 (China Securities Daily*), Chinese SMEs and micro-enterprises accounted for over 90% of all market entities in China, over 80% of nationwide employment, over 60% of gross domestic product and more than 50% of tax revenues for 2017. The number of SMEs and micro-enterprises has been growing rapidly in recent years. According to Ipsos Limited, a global research and consulting firm, the total number of SMEs and micro-enterprises increased from approximately 45.7 million as at 31 December 2010 to approximately 90.0 million as at 31 December 2017, representing a compound annual growth rate ("**CAGR**") of approximately 10.2%.

The PRC Government has been adopting various preferential policies to support SMEs and micro-enterprises. In the press conference held in March 2018 and as part of the convening of 第十三屆全國人民代表大會 (the 13th National People's Congress*) in Beijing, the head of 中華人民共和國商務部 (the Ministry of Commerce of the PRC*) announced that the reforms in 2018 would focus on, among others, reducing the tax burden for SMEs.

In the PRC, the micro-finance industry has been undergoing rapid expansion since 2008 along with the continued development of the macro-economic environment. In May 2008, 中國銀行業監督管理委員會 (the China Banking Regulatory Commission*) (currently known as 中國銀行保險監督管理委員會 (the China Banking and Insurance Regulatory Commission (the "**CBIRC**")) and the PBOC jointly promulgated 關於小額貸款公司試點的指導意見 (the Guiding Opinions on the Pilot Operation of Microfinance Companies*) (the "**Guiding Opinions**") which provided the basis for the development of the micro-finance industry. The Guiding Opinions set forth the fundamental requirements for establishing, registering and operating a micro-finance company at the national level. The Guiding Opinions served as a milestone in advancing the micro-finance industry and led to the rapid increase in government registered micro-finance companies in the PRC. In addition, the State Council issued 關於金融支持經濟結構調整和轉型升級的指導意見 (the Guidance on the Structural Adjustment, Transformation and Upgrading of the Financially Supported Economy*) in July 2013, pursuant to which the PRC Government increased its support, and provided guidance on the diversification of customer segments, for micro-finance companies. Micro-finance companies were also given access to funding at a lower cost.

According to 中國政府網 (www.gov.cn), an official platform managed by 中國國務院辦公廳 (the General Office of the State Council of the PRC*) to publish information relating to the PRC Government to the public, and 中國小額貸款公司協會 (the China Micro-credit

Companies Association*), an association established with the approval from 中國民政部 (the Ministry of Civil Affairs of the PRC*) and managed by the CBIRC for providing statistics and analysis of the micro-finance industry, the total number of registered micro-finance companies in the PRC increased from 4,282 as at 31 December 2011 to 8,551 as at 31 December 2017, representing a CAGR of approximately 12.2%. The total registered capital in the micro-finance industry amounted to approximately RMB827.0 billion as at 31 December 2017. The principal amount of outstanding loans granted by micro-finance companies in the PRC increased from approximately RMB391.5 billion as at 31 December 2011 to RMB979.9 billion as at 31 December 2017, representing a CAGR of approximately 16.5%.

Having considered: (i) the aforesaid supportive government policies; and (ii) the abovementioned increasing number of registered micro-finance companies together with a greater pace of growth of the principal amount of outstanding loans granted by micro-finance companies in the PRC between 2011 and 2017, it is reasonable to expect that the prospects of the micro-finance industry is promising and the positive trend is likely to continue in the near future.

## 5. Principal terms of the Agreement

(i) *Date*

22 August 2018 (after trading hours)

(ii) *Parties*

The Vendor, as the seller;

the Purchaser, as the acquirer;

the Guarantor, as the guarantor; and

the Target Company, as the subject matter.

(iii) *Subject matter to be acquired*

Pursuant to the Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire 47% equity interests in the Target Company, subject to the terms and conditions of the Agreement.

As disclosed in the Announcement, CWW Leasing, an indirect wholly-owned subsidiary of the Company, entered into a capital increase agreement with the then shareholders of the Target Company and agreed to make cash contribution of RMB32,000,000 for the increase of the registered capital of the Target Company. Upon completion of the aforesaid capital increase and as at the Latest Practicable Date, CWW Leasing held 8% equity interests in the Target Company. As at the Latest Practicable Date, the Target Company is owned as to 88.75% by the Vendor, 8% by CWW Leasing, 1.625% by Party A and 1.625% by Party B. To the best of the Management's knowledge, information and belief and having made all reasonable enquiries, (i) each of Party A and Party B is an Independent Third Party; (ii) Party A is a director of the Target Company while Party B is a private investor who does not hold any position in the Target Company; and (iii) Party A is experienced in corporate management and financial investment while Party B has over ten years of experience in the banking and finance industry. Upon Completion, the Target Company will be owned as to 55% by the Group, 41.75% by the Vendor, 1.625% by Party A and 1.625% by Party B. Accordingly, the Target Company will become an indirect non-wholly owned subsidiary of the Company and the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Group.

(iv) *Consideration*

The Consideration is RMB156,700,000 (subject to adjustment, where applicable), and shall be settled in the following manner:

(a) a sum of RMB31,340,000, being the initial deposit of the Consideration, shall be payable to the Vendor within five (5) Business Days upon signing of the Agreement. Such initial deposit shall be refundable to the Purchaser in the event that the conditions precedent are not satisfied or (if applicable) waived on or before the Long Stop Date and Completion does not take place in accordance with the Agreement.

As at the Latest Practicable Date, the initial deposit of RMB31,340,000 had been transferred to the Vendor according to the Agreement;

(b) a further sum of RMB15,670,000 shall be payable to the Vendor in cash on the date of Completion; and

(c) the remaining balance of the Consideration in the sum of RMB109,690,000 shall be satisfied by issuing the Promissory Note in favour of the Vendor (or its nominee) by the Purchaser on the date of Completion.

The Consideration was determined after arm's length negotiation between the Purchaser and the Vendor with reference to, among others, (i) the unaudited NAV of the Target Company of approximately RMB416,747,000 as at 30 June 2018 [(Note)]; and (ii) the preliminary valuation on 47% equity interests in the Target Company as at 30 June 2018 prepared by the Independent Valuer.

*Note: This is as set out on the unaudited management accounts of the Target Company as at 30 June 2018. For the audited NAV of the Target Company as at 30 June 2018, please refer to the Target Company Accountants' Report.*

The initial deposit of the Consideration under the Agreement was funded by the Group's internal resources. It is the current intention of the Company that the remaining balance of the Consideration will be funded by the Group's internal resources and/or financing through bank borrowing and/or equity fundraising as the Directors may deem appropriate at the relevant time.

(v) *Promissory Note*

The Purchaser has agreed to issue the Promissory Note with principal face value of RMB109,690,000 with a 60-month term at 3.5% interest per annum in favour of the Vendor (or its nominee), to settle part of the Consideration on the date of Completion. The Company may at its discretion early redeem a part of or the whole outstanding amount under the Promissory Note within the term of the Promissory Note. For details of our analysis on the key terms of the Promissory Note, please refer to the section headed "8. Principal terms of the Promissory Note" in this letter below.

(vi) *Adjustment to the Consideration*

As agreed between the Vendor and the Purchaser in the Agreement,

(a) in the event that the audited profit after tax of the Target Company prepared according to the PRC accounting standards for the financial year ending 31 December 2018 (the "**2018 Audited Profit**") is not less than RMB14,000,000 (the "**2018 Profit Condition**"), the Consideration shall be adjusted upwards by RMB19,600,000; and

(b) (i) conditional upon the satisfaction of the 2018 Profit Condition, in the event that the audited profit after tax of the Target Company prepared according to the PRC accounting standards for the financial year ending 31 December 2019 (the "**2019 Audited Profit**") is not less than RMB16,000,000 (the "**2019 Profit Condition**"), the Consideration shall be adjusted further upwards by RMB19,600,000; or

(ii) in the event of failure to satisfy the 2018 Profit Condition, but the 2019 Audited Profit is not less than the sum of the amount of the 2019 Profit Condition and the shortfall in the amount of the 2018 Profit Condition, the Consideration shall be adjusted upwards by RMB39,200,000.

We understand that the benchmarks for the 2018 Audited Profit and 2019 Audited Profit were determined after the discussion between the Management and the Vendor. The parties expect a growth rate of not less than 60% in the 2018 Audited Profit on the following basis: (i) the business performance of the Target Company for the seven months ended 31 July 2018 is satisfactory. The Target Company has already recorded a net profit of approximately RMB6.7 million for the seven months ended 31 July 2018 based on its unaudited management account according to the PRC accounting standard, which represents over 75% of the net profits for the year ended 31 December 2017. The parties are of the view that the business performance of the Target Company in the second half of 2018 would be no less favourable than that in the first half of 2018; and (ii) in the microfinance industry, companies with more registered capital generally have larger business scales, as they have abundant financial resources to handle more loan transactions. The registered capital of the Target Company has been increased by approximately 33.3% from RMB300,000,000 to RMB400,000,000 in mid-2018. The capital increase provides the Target Company with more resources, which allows the Target Company to grant larger amount of loans and facilitate its business expansion. Based on the aforesaid, earnings of the Target Company may increase further since June 2018. The parties expect a growth rate of not less than 14% in the 2019 Audited Profit, which is relatively lower when compared with the 2018 Audited Profit due to: (i) the Target Company would benefit from the synergy effect brought by the Acquisition as disclosed in the paragraph headed "Reasons for and benefits of the Acquisition" above, leading to a potentially steady growth in its business; and (ii) notwithstanding the reason set out in paragraph (i) above, the shareholders of the Target Company currently have no intention to make further increase in the registered capital of the Target Company, this would, to a certain extent, limit the growth rate.

Based on our research of micro-finance companies with shares listed on the Main Board of the Stock Exchange as mentioned in the paragraph headed "(B) Comparable Companies" under the section headed "7. Assessment of the Consideration" in this letter below, the net profit attributable to shareholders of these companies in their latest financial year has either decreased or recorded an increase with a single digit growth rate. As such, we are of the view that setting an annual growth rate of not less than 60% for the year ending 31 December 2018 and an annual growth rate of not less than 14% for the year ending 31 December 2019 is a reasonable although it presents a slightly challenging target for the Target Company.

During the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, we understand that no item which was non-recurring, extraordinary or not in the ordinary and usual course of business of the Target Company was recorded in the audited accounts of the Target Company. The Directors do not expect item of similar nature will be recorded in the audited accounts of the Target Company in determining the 2018 Audited Profit and 2019 Audited Profit, and item of similar nature, if any, will be excluded from the 2018 Audited Profit and 2019 Audited Profit for the purpose of consideration adjustment.

The Purchaser shall settle the aforesaid amount within ten (10) Business Days upon issuing of the relevant audited financial statements of the Target Company for the respective financial years by the independent auditor, provided that the audited profit as shown in the relevant audited financial statements of the Target Company shall satisfy the profit condition in the corresponding financial year set out above.

The additional amount to the Consideration payable by the Purchaser in respect of the aforesaid profit conditions shall in no circumstances exceed RMB39,200,000 in total. The Purchaser shall under no obligation to make such additional payment without the Target Company's achievement of the 2018 Profit Condition and/or the 2019 Profit Condition and such mechanism of adjustment to Consideration will not affect Completion and the Purchaser's (or its designated entity's) legal ownership of the 47% equity interests in the Target Company after Completion.

The Directors are of the view that, the setting of the benchmark of the 2018 Audited Profit and 2019 Audited Profit as well as the mechanism on adjustment to Consideration are favourable to the Company. The initial Consideration of RMB156,700,000 represents a discount of approximately 19.6% to the appraised value in the Valuation. By settling the initial Consideration, the Company will be able to obtain the legal ownership of 55% equity interests in the Target Company upon Completion. Under the mechanism on adjustment to Consideration, the Purchaser is under no additional payment obligation if the Target Company fails to meet the 2018 Profit Condition and/or 2019 Profit Condition, and there is no guarantee that the Target Company will be able to meet the 2018 Profit Condition and/or 2019 Profit Condition which will in turn trigger the Purchaser's additional payment obligation.

Details of the assessment of the Consideration are set out in the section headed "7. Assessment of the Consideration" in this letter below.

(vii) *Conditions precedent*

Completion is conditional upon, among others, the following conditions being satisfied or (if applicable) waived by the Purchaser on or before the Long Stop Date:

(a) the Purchaser having completed the due diligence on the Target Company and being reasonably satisfied with the results of the due diligence, including the legal, financial and business aspects of the Target Company;

(b) the passing by the Independent Shareholders at the EGM to be convened and held of the necessary ordinary resolution to approve the Agreement and the transactions contemplated thereunder;

(c) the legal opinion having been issued by the PRC legal adviser designated by the Purchaser, confirming:

   a. the due incorporation and subsistence of the Target Company, and fully paid up of its share capital; and

   b. the Target Company's possession of all necessary approvals, permits and licences issued by the relevant government authorities in respect of its incorporation, business operation and change in shareholding;

(d) the provision of all the aforesaid approvals, permits and licences of the Target Company by the Vendor, including but not limited to the approval letters respectively issued by 深圳市人民政府金融發展服務辦公室 (the Shenzhen Municipal Government Financial Development Services Office*) (the "**Financial Services Office**") and 深圳市市場監督管理局 (the Market Supervision Administration of Shenzhen Municipality*) in relation to the changes of shareholding and directors in the Target Company as a result of the Acquisition;

(e) the audited financial statements of the Target Company for the three years ended 31 December 2017 and the six months ended 30 June 2018 having been issued by the independent auditor as appointed by the Purchaser in accordance with the Hong Kong Financial Reporting Standards; and

(f) the Valuation Report having been issued by the Independent Valuer according to international standards.

For the full list of conditions precedent, please refer to the Letter from the Board. Neither the Vendor nor the Purchaser shall have the right to waive any of the conditions (b), (d), (e) and (f) above. The Purchaser may at its discretion waive any of the conditions (a) and (c) above. We confirmed with the Management that, as at the Latest Practicable Date, the Purchaser had no intention to waive the condition (a) above. If the above conditions have not been fulfilled or waived (as the case may be) on or before the Long Stop Date, the Agreement shall be terminated and the Vendor shall immediately upon termination of the Agreement refund the initial deposit of RMB31,340,000 received to the Purchaser, whereupon the relevant rights and obligations under the Agreement shall have no further force and effect and no party to the Agreement shall have any liability under them (without prejudice to the rights of the parties to the Agreement in respect of any antecedent breaches).

As at the Latest Practicable Date, save for conditions (c), (e) and (f) above, none of the conditions precedent above have been fulfilled and/or waived by the Purchaser.

(viii) *Completion*

Completion shall take place on the fifth (5th) Business Day following the day on which all conditions precedent are fulfilled or waived by the Purchaser (as the case may be).

## 6. Information on the Target Company

### (A) *Background information of the Target Company*

The Target Company is a company established in the PRC with limited liability on 26 May 2009. It is a financial institution primarily engaged in the provision of small loans to its customers in Shenzhen, the PRC. As at the Latest Practicable Date, the Target Company operated eight branches throughout Shenzhen, the PRC. The Target Company is under the supervision of, and granted a small loan company license for its operation by the Financial Services Office. Details of the business plan and strategies adopted by the Target Company are set out in the paragraph headed "Business strategies" under the section headed "Information on the Target Company" in the Letter from the Board.

### (B) *Financial information of the Target Company*

Set out below is the discussion and analysis of the financial information of the Target Company.

(i) *Financial performance*

The following is an extract of the audited financial results of the Target Company for the three years ended 31 December 2015 ("**FY2015**"), FY2016, FY2017 and HY2018 (the "**Financial Review Period**"), as extracted from the Target Company Accountants' Report.

**This is intentionally left blank**

**Table 3: Highlight of the financial results of the Target Company**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | | | | *(Unaudited)* | |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| Revenue | 48,507 | 48,431 | 57,087 | 23,993 | 40,982 |
| Other income | 73 | 231 | 359 | 348 | 73 |
| Administrative and other expenses | (15,839) | (13,123) | (11,762) | (5,766) | (5,431) |
| Employee benefit expenses | (16,192) | (15,322) | (15,374) | (7,176) | (7,863) |
| Allowance for expected credit losses ("**ECLs**") on loan receivables, net | (48,463) | 48,430 | (10,920) | 6,340 | (15,347) |
| Bad debts (written off)/ recovery of bad debts | — | (3,762) | 439 | 101 | (62) |
| Finance costs | (5,214) | (4,434) | (9,231) | (4,180) | (7,050) |
| **Profit/(loss) before income tax** | (37,128) | 60,451 | 10,598 | 13,660 | 5,302 |
| Income tax credit/(expense) | 8,943 | (12,147) | 1,749 | (3,903) | (1,325) |
| **Profit/(loss) for the year/ period** | (28,185) | 48,304 | 12,347 | 9,757 | 3,977 |

*Source: Target Company Accountants' Report*

(1) Revenue

As set out above, revenue of the Target Company for FY2015, FY2016, FY2017 and HY2018 were approximately RMB48.5 million, RMB48.4 million, RMB57.1 million and RMB41.0 million, respectively. Revenue was primarily derived from the provision of small loans in the PRC and predominantly in Shenzhen. Interest income was approximately RMB46.8 million in FY2015 and remained stable at approximately RMB46.5 million in FY2016 and increased to approximately RMB55.5 million in FY2017. The Target Company generated an interest income of approximately RMB39.2 million in HY2018, representing an increase of approximately 69.0% when compared with the interest income of approximately RMB23.2 million in HY2017. The increase was primarily due to the increase in interest income from unsecured small loans which bore higher effective interest rate.

(2) Administrative and other expenses

During the Financial Review Period, administrative and other expenses of the Target Company decreased from approximately RMB15.8 million in FY2015 to approximately RMB13.1 million in FY2016 and further decreased to approximately RMB11.8 million in FY2017. As represented by the Management, the gradual decrease of administrative and other expenses during the period was mainly due to the closure of two branches by end of 2017 resulting from the Target Company's review and adjustment on site planning of branches. The administrative and other expenses during HY2018 followed a similar trend which amounted to approximately RMB5.4 million, representing a decrease of 6.9% when compared with the administrative and other expenses of approximately RMB5.8 million in HY2017.

(3) Allowance for ECLs on loan receivables

In accordance with applicable accounting standards adopted by the Company, after loans have been granted, the Target Company will make an allowance for ECL based on internal assessment of the credit risk of corresponding loans. Once the loans have been repaid, the corresponding amount of allowance for ECLs will be written back. The allowance for ECLs for FY2015, FY2016, FY2017 and HY2018 were approximately RMB97.3 million, RMB22.3 million, RMB32.0 million and RMB47.0 million, respectively, with the amounts written back for FY2015, FY2016, FY2017 and HY2018 amounted to approximately RMB48.9 million, RMB70.7 million, RMB21.1 million and RMB31.6 million, respectively. The amount of allowance for ECLs written back increased significantly for FY2016 which showed that actual credit risk of the outstanding loans is lower than the Target Company's assessment upon granting the loans. The amount of allowance for ECLs written back in HY2018 of approximately RMB31.6 million, representing an increase of approximately 54.1% compared to HY2017 of approximately RMB20.5 million. As discussed with the Management, the amount of allowance for ECL made for every loan granted depends on the Target Company's internal credit risk assessment of the loan applicant which is unique for each loan application. The management of the Target Company considers such fluctuations is common to the small loan companies. As such, the fluctuation of allowance for ECL is common for small loan companies but the fluctuation of allowance for ECL of the Target Company will not be comparable to other market peers in terms of the magnitude.

(4) Bad debt written off

The Target Company did not have any bad debt written off in FY2015. The bad debt written off before the net-off of recovery in FY2016, FY2017 and HY2018 amounted to approximately RMB3.8 million, RMB3.9 million and RMB0.8 million, respectively.

(5) Finance costs

During FY2015, FY2016, FY2017, the finance costs of the Target Company were approximately RMB5.2 million, RMB4.4 million and RMB9.2 million, respectively. The finance costs in HY2018 of approximately RMB7.1 million represents a significant increase of approximately 69.0% compared with the finance costs of approximately RMB4.2 million for HY2017. The significant increase of the finance costs in FY2017 and HY2018 was mainly attributable to the Target Company made an secured bank borrowing of RMB100.0 million and another secured short-term borrowing of RMB50.0 million in FY2017.

(6) Profit/(loss) for the year/period

As a result of the aforementioned reasons and factors, the net income for the year of the Target Company fluctuated which increased from a loss of approximately RMB28.2 million in FY2015 to a profit of approximately RMB48.3 million in FY2016 and declined to approximately RMB12.3 million in FY2017. The net income of the Target Company for HY2018 was approximately RMB4.0 million, representing a decrease of approximately 59.2% compared to that of HY2017 of approximately RMB9.8 million.

(ii) *Financial position*

The following is an extract of the audited financial positions of the Target Company at each of the year/period ends during the Financial Review Period, as extracted from the Target Company Accountants' Report.

**Table 4: Highlight of the financial positions of the Target Company**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| **Non-current assets** | | | | |
| Property, plant and equipment | 9,386 | 6,061 | 3,770 | 2,551 |
| Deferred tax assets | 26,714 | 15,538 | 17,606 | 18,891 |
| Loan receivables | 2,295 | 2,002 | 7,918 | 10,174 |
| | 38,395 | 23,601 | 29,294 | 31,616 |
| **Current assets** | | | | |
| Loans receivables | 242,597 | 301,791 | 404,595 | 513,382 |
| Prepayment, deposits and other receivable | 1,079 | 861 | 982 | 547 |
| Due from related companies | 285 | 285 | 251 | 251 |
| Tax recoverable | 647 | 4,950 | 5,531 | 3,613 |
| Cash and bank balances | 10,999 | 16,787 | 13,549 | 10,216 |
| | 255,607 | 324,674 | 424,908 | 528,009 |
| **Current liabilities** | | | | |
| Accruals and other payables | 8,564 | 9,533 | 12,275 | 13,721 |
| Due to related companies | — | — | 838 | 838 |
| Bank and other borrowings | 55,000 | 60,000 | 150,000 | 150,000 |
| | 63,564 | 69,533 | 163,113 | 164,559 |
| **Equity** | | | | |
| Share capital | 300,000 | 300,000 | 300,000 | 400,000 |
| Reserve | (69,562) | (21,258) | (8,911) | (4,934) |
| **Total equity** | 230,438 | 278,742 | 291,089 | 395,066 |

*Source: Target Company Accountants' Report*

(1) Loans receivables

As at 30 June 2018, the loans receivables of the Target Company were denominated in RMB and were accrued from the Target Company's short-term financing services with loan periods granted to customers ranging from one week to five years and with fixed monthly interest rates ranging from 0.70% to 1.50% and effective interest rates ranging from 8.04% per annum to 27.84% per annum. The current portion of loans receivables were approximately RMB242.6 million, RMB301.8 million, RMB404.6 million and RMB513.4 million as at 31 December 2015, 31 December 2016, 31 December 2017 and 30 June 2018, respectively. The non-current portion of the respective loan receivables were approximately RMB2.3 million, RMB2.0 million, RMB7.9 million and RMB10.2 million as at 31 December 2015, 31 December 2016, 31 December 2017 and 30 June 2018. The significant increase in both the current and non-current portion of loans receivables as at 30 June 2018 was due to the cash brought about by the increase in loan portfolio and the Capital Contribution.

(2) Equity and capital structure

The share capital of the Target Company during most of the Financial Review Period remained at RMB300 million. After the Capital Contribution in June 2018, the share capital of the Target Company increased to RMB400 million. The Target Company's major funding source is equity financing which is its share capital contributed by its shareholders. The share capital of the Target Company of RMB400 million as at 30 June 2018 represented over 70% of the Target Company's total liabilities and equity. As explained by the Management, given the Target Company's strong reliance on equity financing instead of debt financing, the Target Company does not have to rely significantly on the market liquidity in the form of debt financing as its key source of financing. Therefore, the Management informed us that the Target Company's strong reliance on its equity base can be seen as one of the reasons the Directors consider the Acquisition as a favourable business venture to counter the negative impact brought about by the tightening of market liquidity mentioned in the section headed "2. Financial information of the Group" in this letter above.

(3) Bank and other borrowings

As at 31 December 2017 and 30 June 2018, the Target Company had secured bank borrowings guaranteed by a related company and connected persons of the Target Company of RMB100 million with interest at 6.96% per annum and 8.20% per annum, respectively.

As at 30 June 2018, the Target Company had short-term unsecured other borrowings guaranteed by connected persons of the Target Company of RMB50 million. The Target Company also had short-term secured other borrowings of RMB50 million as at 31 December 2017 pledged by the Target Company's loans receivables with an equivalent amount. The other borrowings bore interest at 6.72% per annum, and 16.00% per annum as at 31 December 2017 and 30 June 2018, respectively. As advised by the Management, the increase in the other borrowings' interest as at 30 June 2018 compared to that of 31 December 2017 was mainly attributable to the repayment of the secured borrowings with an interest rate of 6.72% per annum in early 2018 while the Target Company made the abovementioned unsecured borrowings of RMB50 million with a higher interest rate of 16.00% per annum. Due to the lack of security for such borrowings, the interest is significantly higher.

## 7. Assessment of the Consideration

### (A) *Business valuation*

*Introduction*

As stated in the Letter from the Board, the Consideration was arrived at after arm's length negotiation between the Purchaser and the Vendor. In determining the Consideration, the Management considered, among others, (i) the unaudited NAV of the Target Company of approximately RMB416,747,000 as at 30 June 2018; and (ii) the preliminary valuation on the 47% equity interests in the Target Company as at the Valuation Date (i.e. 30 June 2018) performed by the Independent Valuer, adopting the market approach.

Independent Shareholders' attention is drawn to the appraised value in the Valuation of RMB195.0 million as set out in the Valuation Report. The initial Consideration for the 47% equity interests in the Target Company is RMB156.7 million, which is at a discount of approximately 19.6% to the appraised value. In the event that the Target Company meets both the 2018 Profit Condition and the 2019 Profit Condition, the adjusted Consideration will amount to RMB195.9 million (the "**Adjusted Consideration**"), which is almost at par with the appraised value. In the event that the Target Company satisfies the 2018 Profit Condition but incurs a net loss for the financial year ending 31 December 2019, there will be no refund in respect of the adjustment made to the Consideration under the 2018 Profit Condition. Under such circumstances, the Consideration having adjusted to RMB176,300,000 still represents a discount of approximately 9.6% to the appraised value in the Valuation.

We have reviewed the Valuation Report and interviewed the relevant team members of the Independent Valuer with particular attention to: (i) the terms of engagement of the Independent Valuer with the Company; (ii) the qualification and experience of the Independent Valuer in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer in performing the Valuation. After our review of the engagement letter between the Company and the Independent Valuer, we are satisfied that the scope of work performed by the Independent Valuer is appropriate to perform the Valuation. We are not aware of any limitation on the scope of work which might have a negative impact on the degree of assurance given by the Valuation Report. The Independent Valuer has confirmed that it is independent from the Company, the Target Company, the Purchaser and the Vendor and its related persons. We further understand that the Independent Valuer is certified with the relevant professional qualifications required to perform the Valuation. Each of the person in-charge of the Valuation and the supervisor of the Valuation has over 20 years and 9 years of experience, respectively, in conducting valuation services to a wide range of clients across different industries. We also note that the Independent Valuer mainly conducted its due diligence through its own research and has relied on public information obtained through its own research as well as the financial information provided by the Management. The Independent Valuer represented that it has assumed such information to be true, complete and accurate and has accepted it without verification.

In light of the above, we are not aware of any matters that would cause us to question the Independent Valuer's expertise and independence and we consider that the Independent Valuer has sufficient expertise and is independent to perform the Valuation.

*Valuation methodology*

We understand that the common valuation approaches include asset approach, market approach and income approach. Asset approach provides an indication of value by aggregating the market values of the subject company's assets and liabilities. Market approach provides an indication of value by comparing the asset with identical or comparable assets for which price information is available. Income approach provides an indication of value by converting future economic benefits to a present value.

As discussed with the Independent Valuer, the Independent Valuer considers that the market approach to be the most appropriate valuation approach over the income approach and the asset approach as (i) the income approach requires relatively subjective assumptions to which the valuation is highly sensitive and detailed operational information and long-term reliable financial projections of the amount and timing of future income are also needed to arrive at an indication of value; (ii) the asset approach is unlikely to capture the future potential growth of the Target Company; and (iii) the application of market approach is relatively more objective as publicly available data is used which reflects the market consensus on the pricing of similar assets. Under market approach, there are guideline public company method and guideline transactions method. While the guideline public company method refers to valuation by comparing the Target Company with reference to comparable listed companies, the guideline transactions method refers to valuation by comparing the Target Company with reference to the recent acquisition transactions of the companies that the Independent Valuer considered to be comparable ("**Valuation Comparable Transactions**") with relevant adjustments made to reflect the condition and utility of the Target Company (if necessary and appropriate), to arrive at the appraised value in the Valuation. We understand from the Independent Valuer that guideline transaction method has the advantage over the guideline public company method as being more representative of market conditions where it uses actual market data of the completed transactions. Furthermore, as the Target Company is not a public company, the use of guideline transaction method captures more private company transactions as opposed to guideline public company method. As such, the Independent Valuer opted for the guideline transaction method.

*Sample selection*

As advised by the Independent Valuer, the fair value of the Target Company was determined with reference to the consideration of previous market transactions which involve the acquisition of micro-finance companies with business nature considered to be comparable to the Target Company. From the discussion with the Independent Valuer, we understand that they have identified 13 Valuation Comparable Transactions, the acquisition targets of which are: (i) principally engaged in provision of micro financing services; (ii) primarily operate business activities in the PRC; and (iii) acquired within 3 years prior to and including the Valuation Date (the "**Valuation Sampling Period**"). We are of the view that the Valuation Sampling Period of 3 years to be a fair and reasonable period to reach a representative sample of Valuation Comparable Transactions and with a sufficient sample size of 13. The information of the Valuation Comparable Transactions were extracted from the website of the Stock Exchange (i.e. www.hkexnews.hk) and 巨潮資訊網 (i.e. www.cninfo.com.cn), a PRC listed company information disclosure website designated by 中國證券監督管理委員會 (the China Securities Regulatory Commission*), which are both major market information providers in Hong Kong and the PRC, respectively, and we consider such source of the information to be credible and reliable. For details of the Valuation Comparable Transactions, please refer to the Valuation Report as set out in Appendix V to the Circular.

We have discussed with the Independent Valuer to understand the appropriateness of the selection criteria of the Valuation Comparable Transactions In the course of our assessment of the Valuation, we understand from the Independent Valuer that companies engaged in the provision of internet micro-finance have been excluded as the business of these companies is not regarded as comparable to that of the Target Company. Furthermore, we understand from the Independent Valuer that the valuation of internet-based micro-finance companies is, in general, higher than that of companies which are not internet-based due to the recent development trend and growth of the financial technology sector. The inclusion of valuation of internet-based micro-finance companies may distort the analysis and accordingly may overvalue the Target Company. We concur with the view of the Independent Valuer that the inclusion of internet micro-finance companies may not lead to a comparable valuation as the principal business activities of the Target Company do not include any internet-based micro-finance. To arrive at a more conservative and accurate Valuation, we agree with the Independent Valuer that internet-based micro-finance companies should be excluded from the Valuation Comparable Transactions. We noted that all the acquisition targets of the Valuation Comparable Transactions are private companies which are similar type of entity as the Target Company. As advised by the Independent Valuer, it was due to the absence of completed acquisition transactions involving listed company being the target company during the Valuation Sampling Period. The Valuation Sampling Period, which covers a period from 1 July 2015 to 30 June 2018, is considered by the Independent Valuer to be sufficient to form a sample size of 13 Valuation Comparable Transactions, which is considered meaningful to arrive at the appraisal value. Having considered the above, we consider that selection criteria of the Valuation Comparable Transactions and the Valuation Sampling Period to be justifiable.

*Choice of valuation multiples*

As to the choice of valuation multiple for the Valuation, the Independent Valuer adopted the measure of price-to-book multiple (the "**P/B Multiple**") ratio. As stated in the Valuation Report, the Independent Valuer excluded the measures of price-to-sales multiple (the "**P/S Multiple**") ratio, price-to-earnings multiple (the "**P/E Multiple**") ratio and enterprise value-to-earnings before interest and tax (the "**EV/EBIT Multiple**") ratio. The Independent Valuer explained the reason of not using the P/S Multiple is because it is unable to capture the differences in cost structure between the acquisition targets of the Valuation Comparable Transactions and the Target Company. In view of the increase in the registered capital of the Target Company in June 2018, the Independent Valuer is of the view that the historical earnings of the Target Company may not be stable and normalised for the period prior to the Valuation Date. We agree that the increase in the registered capital of the Target Company in June 2018 will enable the Target Company to grant a larger amount of loans which may in turn increase the earnings of the Target Company from June 2018 onwards. As such, by applying the P/E Multiple and the EV/EBIT Multiple on the historical earnings of the Target Company would not have captured the full valuation potential of the Target Company. As advised by the Independent Valuer, it is a common market practice to adopt the P/B Multiple to appraise the valuation of companies with the principal business in money lending or financial leasing. The Independent Valuer further represented that the NAV is critical for a company to carry out the money lending business as the NAV is instrumental to the size of loan portfolio that can be provided by a money lending company. We reviewed the transaction announcements of all the Valuation Comparable Transactions and noted that the consideration bases of 7 out of 13 Valuation Comparable Transactions were determined with reference to the then latest NAVs of the relevant acquisition targets. The consideration bases of the remaining 6 out of 13 Valuation Comparable Transactions were determined with reference to the appraised NAVs of the relevant acquisition targets. As such, we concur with the view of the Independent Valuer that the P/B Multiples of the Valuation Comparable Transactions to be the most appropriate valuation multiple for the Valuation and a common market practice. We further understand from the Independent Valuer that the average P/B Multiple (excluding maximum and minimum figures) of the Valuation Comparable Transactions was adopted in the Valuation. In this regard, we consider that the Independent Valuer's adoption of such P/B Multiple to be reasonable. Furthermore, as both the acquisition targets of the Valuation Comparable Transactions and the Target Company are private companies, we note that the discount on the lack of marketability was not applicable to the consideration of the Valuation Comparable Transactions.

*Control Premium*

In view of the fact that the Acquisition involves a transfer of the controlling stake of a company, the Independent Valuer has applied a control premium of 26% (the "**Control Premium**") in the Valuation. As discussed with the Independent Valuer, we understand that a control premium generally represents the additional amount paid by an investor for the benefit of obtaining the control of the subject company. We understand from the Independent Valuer that for transactions which involve the transfer of equity interest of 50% or more in the target company, the corresponding consideration of the transaction would not be adjusted by the control premium as the consideration already includes the consideration of transferring the controlling interest in the target company. As such, only the consideration of those comparable transactions without the transfer of controlling interest in the target company will be adjusted by the control premium as the consideration of the aforesaid transactions was assumed to be implied with control premium. We note from various business valuation reports in relation to transfer of controlling stake prepared by independent valuers in the market that it is a common market practice of adjusting for control premium in the consideration of comparable transactions without the transfer of controlling interest to arrive at the appraised value of a transaction which involves a transfer of the controlling stake in the target company.

It is noted that only one of the transactions identified by the Independent Valuer did not involve a transfer of controlling stake. As such, the corresponding P/B Multiple of this transaction did not reflect the relevant Control Premium. We understand the Control Premium was applied by the Independent Valuer to the relevant P/B Multiple of such transaction as if there was a transfer of controlling stake taking place. As such, the average P/B Multiple (excluding maximum and minimum figures) of the Valuation Comparable Transactions adopted in the Valuation had included the Control Premium-adjusted P/B Multiple of such transaction. We further understand from the Independent Valuer that the Control Premium was adopted with reference to the control premium study in 4th Quarter 2017 published by FactSet Mergerstat, LLC, which is a major provider of financial information and analytical data for investment professionals. We have been provided with the relevant extract of the control premium study. According to aforesaid control premium study provided by the Independent Valuer, we noted that the median and average control premium in 114 international transactions were approximately 26.0% and 54.5%, respectively. As advised by the Independent Valuer, since the average control premium is more than double of the median control premium, it would be more appropriate to apply the median control premium instead of the average control premium for the sake of prudence, which we agree. Having considered: (i) the empirical data supported by a global financial database provider; and (ii) the reason of adopting the median control premium by the Independent Valuer instead of the average control premium, we are of the view that the Control Premium of 26% applied by the Independent Valuer in the Valuation to be fair and reasonable. We further consider the Independent Valuer's approach of adjusting the Control Premium for that transaction that did not involve a transfer of controlling stake to be fair and reasonable.

*Calculation of the appraised value*

As shown in the Valuation Report, to arrive at the final valuation figure for the 47% equity interests in the Target Company, the Independent Valuer first multiplied the average P/B Multiple (excluding maximum and minimum figures) of the Valuation Comparable Transactions of approximately 1.05 times by the NAV of the Target Company as at 30 June 2018 of approximately RMB395.1 million to arrive at the appraised value of the 100% equity interest of the Target Company of approximately RMB415.4 million. The Independent Valuer then multiplied such value with 47% and rounded down to the nearest million to arrive at the final valuation figure for the 47% equity interests in the Target Company of approximately RMB195.0 million.

*Our view*

Having discussed the above market approach adopted by the Independent Valuer and reviewed the details of their valuation methodology, bases and assumptions, we are of the opinion that the chosen valuation methodology in establishing the Valuation is in line with market practices to value businesses of a similar nature.

**(B)** ***Comparable Companies***

To assess the fairness and reasonableness of the Consideration, we have conducted our own independent analysis by comparing the relevant listed peer companies, which are engaged in similar principal business activities, against the Target Company. We consider our selection of listed companies as Comparable Companies (as defined below) to be complementary to the Independent Valuer's selection of private companies as the Valuation Comparable Transactions. We performed our own additional analysis on the Consideration by observing the valuation multiples of the Comparable Companies (as defined below) against the Target Company, instead of duplicating work performed by the Independent Valuer in comparing the valuation multiples of comparable private companies against the Target Company. Unlike the Valuation, we are essentially seeking to provide a value comparison between the Comparable Companies (as defined below) and the Target Company for reference purpose rather than a precise indication of value of the Target Company, as it was in the case of the Valuation. Therefore, under such exercise, our analysis would not have adjustments of any kind (i.e. discount on lack of marketability or control premium, etc.). It is a common market practice for independent financial advisers to use listed companies as comparable companies to assess whether the transaction consideration generally falls within the market value range of the listed comparable companies and whether it is above or below the average market value of the listed comparable companies. Based on the above, we consider using listed companies as Comparable Companies (as defined below) to be appropriate.

We have identified and reviewed, based on information extracted from Bloomberg and the website of the Stock Exchange, the P/B Multiples and P/E Multiples of the comparable companies (the "**Comparable Companies**") where: (i) the shares of which are listed on the Main Board of the Stock Exchange as at 22 August 2018, being the date of the Agreement; (ii) with at least 50% of the latest reported revenue derived from the provision of loans (which may include companies engaged in financial leasing but exclude companies engaged in internet based micro-finance) in the PRC; and (iii) they are not banks.

We do not consider it appropriate to exclude Comparable Companies with maximum or minimum P/B Multiples and Comparable Companies with principal business activities of providing financial leasing. If all such companies were to be excluded from the sample, there would only be four Comparable Companies remaining which we consider it inadequate in providing a meaningful comparison with the P/B Multiples implied by the Consideration and the Adjusted Consideration. In addition, we are of the view that financing leasing resembles the provision of collateralised loans and therefore should not be excluded from the sample of Comparable Companies. Lastly, we note that although some of the Comparable Companies may carry descriptions of factoring and/or advisory services in their principal business activities thereby giving readers an impression that these Comparable Companies may have business focuses in factoring and/or advisory services, the revenue from these segments of the Comparable

Companies were in fact relatively small when compared to the more prominent segment of providing loans, which accounted for more than 50% of the latest reported revenue of these companies.

Based on the above criteria, set out below are 10 Comparable Companies together with the relevant P/B Multiples and P/E Multiples, the information of which we consider, to the best of our knowledge and ability, to be an exhaustive, fair and representative sample for the purpose of arriving at a meaningful comparison to the Consideration.

| **Name** | **Stock code** | **Principal business activities** | **P/B Multiple** *(Note 1)* *(times)* | **P/E Multiple** *(Note 1)* *(times)* |
|---|---|---|---|---|
| Far East Horizon Limited | 3360 | Far East Horizon Limited is principally engaged in the provision of financial services in direct finance leasing, sale-leaseback, factoring, entrusted loans and the provision of advisory services. | 1.0 | 7.9 |
| Differ Group Holding Company Limited | 6878 | Differ Group Holding Company Limited is principally engaged in the provision of assets management services, finance lease services and financial services. | 1.8 | 15.3 |
| China Financial Services Holdings Limited | 605 | China Financial Services Holdings Limited is engaged in the provision of short-term financing services to SMEs, micro-enterprises and individuals. | 0.6 | 8.4 |
| Good Resources Holdings Limited | 109 | The principal activities of the Good Resources Holdings Limited are provision of financial lease, commercial factoring, general loan finance and investment holding. | 0.5 | 19.1 |
| China Huirong Financial Holdings Limited | 1290 | China Huirong Financial Holdings Limited is principally engaged in lending services through granting collateral-backed loans, guaranteed loans and unsecured loans to customers in the PRC. | 0.6 | 18.7 |
| Wealthy Way Group Limited | 3848 | Wealthy Way Group Limited is mainly engaged in the provision of financial leasing, factoring and advisory services in the PRC. | 1.7 | 29.7 |
| Quanzhou Huixin Micro-credit Co., Limited | 1577 | Quanzhou Huixin Micro-credit Co., Ltd. offers local entrepreneurial individuals, SMEs and micro-enterprises with practical and flexible short-term financing solutions to support their continued development and address their ongoing liquidity needs. | 0.8 | 8.4 |
| Shougang Concord Grand (Group) Limited | 730 | Shougang Concord Grand (Group) Limited is engaged in the property leasing and provision of building management services, finance leasing and assets management. | 0.4 | N/A *(Note 2)* |

| Name | Stock code | Principal business activities | P/B Multiple *(Note 1)* *(times)* | P/E Multiple *(Note 1)* *(times)* |
|---|---|---|---|---|
| Zuoli Kechuang Micro-finance Company Limited | 6866 | Zuoli Kechuang Micro-finance Company Limited provides financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes. | 0.2 | 2.6 |
| China Rongzhong Financial Holdings Company Limited | 3963 | China Rongzhong Financial Holdings Company Limited is engaged in the provision of financial leasing services in the PRC. | 1.0 | N/A *(Note 2)* |
| | | **Average** | **0.9** | **13.8** |
| | | **Median** | **0.7** | **11.8** |
| | | **Maximum** | **1.8** | **29.7** |
| | | **Minimum** | **0.2** | **2.6** |
| **The Consideration** *(Note 3)* | | | **0.8** | **27.1** |
| **The Adjusted Consideration** *(Note 4)* | | | **1.1** | **26.1** |

*Notes:*

1. Save for the Consideration, the P/E Multiples and the P/B Multiples of the Comparable Companies are respectively, calculated based on their respective market capitalisation as at 22 August 2018, divided by the most recent net profit attributable to the shareholders of the Comparable Companies as shown in their respective latest published annual results announcements or annual reports and the NAV attributable to the shareholders of the Comparable Companies as shown in their respective latest published annual results announcements, annual reports, interim results announcements or interim reports. For the above calculations, the financial figures reported in RMB were converted into HK$ at the exchange rate of RMB1: HK$1.14.

2. Shougang Concord Grand (Group) Limited and China Rongzhong Financial Holdings Company Limited recorded net loss attributable to its shareholders for the year ended 31 December 2017 and 31 March 2018, respectively, rendering their P/E Multiples not applicable.

3. The Consideration is RMB156.7 million, which is the Consideration without taking into consideration of any adjustments mentioned under section headed "5. Principal terms of the Agreement" in this letter above. The grossed-up consideration (the "**Grossed-up Consideration**") will be approximately RMB333.4 million which is calculated from dividing the Consideration of RMB156.7 million by 47%. The implied P/B Multiple is calculated by dividing the aforesaid Grossed-up Consideration of RMB333.4 million by the audited NAV attributable to the shareholders of Target Company as at 30 June 2018 of approximately RMB395.1 million. The implied P/E Multiple is calculated by dividing the aforesaid Grossed up Consideration of RMB333.4 million by the audited net profit attributable to the shareholders of the Target Company for the year ended 31 December 2017 of approximately RMB12.3 million.

4. In the event that the Target Company meets both the 2018 Profit Condition and the 2019 Profit Condition, the Consideration will be adjusted to RMB195.9 million (i.e. the Adjusted Consideration). As such, the corresponding Grossed up Consideration will be RMB416.8 million which is calculated based on the Adjusted Consideration of RMB195.9 million divided by 47%. The implied P/B Multiple is calculated by dividing the aforesaid Grossed-up Consideration of RMB416.8 million by the audited NAV attributable to the shareholders of Target Company as at 30 June 2018 of approximately RMB395.1 million. The implied P/E Multiple is calculated by dividing the aforesaid Grossed up Consideration of RMB416.8 million by the 2019 Profit Condition of RMB16 million.

The P/B Multiples of the Comparable Companies ranged from approximately 0.2 times to approximately 1.8 times with an average and a median of approximately 0.9 times and 0.7 times, respectively. The implied P/B Multiples of the Consideration and the Adjusted Consideration are approximately 0.8 times and 1.1 times, respectively. We note that albeit the implied P/B Multiple of the Adjusted Consideration is higher than both the average and median P/B Multiple of the Comparable Companies they nevertheless fall within the range of the Comparable Companies and are significantly below the maximum P/B Multiple of the Comparable Companies of approximately 1.8 times.

For reference purpose only, as we tend to put more weight on the analysis of the P/B Multiples above, we have also conducted an analysis to compare the P/E Multiples of the Comparable Companies to that of the Target Company. The P/E Multiples of the Comparable Companies ranged from approximately 2.6 times to approximately 29.7 times with an average and a median of approximately 13.8 times and 11.8 times, respectively. The implied P/E Multiples of the Consideration and the Adjusted Consideration are approximately 27.1 times and 26.1 times, respectively. It is noted that although the implied P/E Multiples of the Consideration and the Adjusted Consideration are higher than both the average and median of the Comparable Companies' P/E Multiples, they nevertheless fall within the range of the Comparable Companies' P/E Multiples albeit quite close to the upper range.

Although the implied P/E Multiples of the Consideration and the Adjusted Consideration are generally higher than the average and median of the P/E Multiples of the Comparable Companies, we hold the similar view as the Independent Valuer that the NAV of a micro-financing company plays a more important part in loan portfolio generation since a company constantly requires to be capitalised to provide fundings to borrowers. Earnings, on the other hand, can fluctuate wildly depending on market interest rates and expected credit losses estimated. As such, it is particularly noted that the implied P/B Multiples of the Consideration and the Adjusted Consideration are close to the average and median of the Comparable Companies' P/B Multiples and are within the range of the Comparable Companies' P/B Multiples, suggesting that the Consideration and Adjusted Consideration are fairly priced.

**8. Principal terms of the Promissory Note**

| | |
|---|---|
| Issuer: | The Purchaser |
| Principal amount: | RMB109,690,000 |
| Date of issue: | The date of Completion |
| Maturity date: | The end of the 60th month term from the date of issue. |
| Interest: | The Promissory Note bears interest at the rate of 3.5% per annum. |
| Early repayment: | The Company may, at its option, redeem the whole or any part of the outstanding principal amount of the Promissory Note at any time prior to the maturity date by giving the holder not less than three (3) Business Days' prior written notice specifying the date of redemption. |
| Transferability: | The Promissory Note is transferrable. |

To evaluate the fairness and reasonableness of the terms of the Promissory Note, we have, on a best effort basis, conducted a search of notifiable transactions (as defined under the Listing Rules) announced by the companies listed on the Stock Exchange during the period from the beginning of 2018 and up to and including 22 August 2018, being the date of the Agreement (the "**PN Sampling Period**") where all or part of the consideration for the notifiable transactions involved the issuance of promissory notes. To the best of our knowledge and as far as we are aware, we have identified a total of 9 transactions (the "**PN Comparables**"), which we consider to be exhaustive, fair and representative. We consider that the PN Sampling Period for assessing the fairness and reasonableness of the terms of the Promissory Note reflects a sufficient and representative period to demonstrate the latest prevailing market practices through a reasonable number of market transactions.

| Date of announcement | Company name | Stock code | Maturity (Years) | Interest rate per annum (%) |
|---|---|---|---|---|
| 13 August 2018 | China Agroforestry Low-Carbon Holdings Limited | 1069 | 2.0 | 5.0 |
| 24 July 2018 | Trigiant Group Limited | 1300 | 1.3 | 10.0 |
| 19 June 2018 | Kiu Hung International Holdings Limited | 381 | 1.0 | 0 |
| 25 May 2018 | China Trends Holdings Limited | 8171 | 3.0 | 0 |
| 15 March 2018 | Risecomm Group Holdings Limited | 1679 | 1.0 | 0 |
| 13 February 2018 | Sincere Watch (Hong Kong) Limited | 444 | 2.0 | 0 |
| 12 February 2018 | Risecomm Group Holdings Limited | 1679 | 1.0 | 8.0 |
| 25 January 2018 | Enerchina Holdings Limited | 622 | 1.5 | 0 |
| 19 January 2018 | EFT Solutions Holdings Limited | 8062 | 3.0 *(Note)* | 4.0 |
| | | **Average** | **1.8** | **3.0** |
| | | **Median** | **1.5** | **0** |
| | | **Maximum** | **3.0** | **10.0** |
| | | **Minimum** | **1.0** | **0** |
| **22 August 2018** | **The Promissory Note** | **3848** | **5.0** | **3.5** |

*Notes:* The promissory notes issued by EFT Solutions Holdings Limited were made up of four different tranches with different maturities averaging 3 years. Since the promissory notes were issued on the same date and for a single purpose, the average maturity of the promissory notes was quoted to avoid duplication of samples.

It is noted that the interest rate of the PN Comparables ranged from nil to 10.0% with an average of approximately 3.0%. The interest rate of the Promissory Note at 3.5% per annum is slightly above the average of the PN Comparables of 3.0%, but is at the lower end of the range of the PN Comparables.

As shown above, the maturity of the PN Comparables ranged from 1 to 3 years with an average of approximately 1.8 years. The maturity of the Promissory Note of 5 years is longer than the maximum maturity of 3 years of the PN Comparables. It is considered that a longer maturity period of the Promissory Note, together with the early redemption in the option of the Company, provides the Company with a higher flexibility of arranging its financial resources. As such, the longer the maturity period of the Promissory Note, the more favourable it is to the Company.

## 9. Evaluation of payment method by the Promissory Note

The Consideration shall be satisfied by both cash and the Promissory Note. Although the Promissory Note carries an annual interest rate of 3.5%, the interest rate is at the low end range of interests of the PN Comparables as discussed in the section above. Using a combination of cash and the Promissory Note to settle the Consideration can reduce the immediate cash outlay for the Company and will reduce the immediate financial burden of the Company which enables better cash management planning.

In view that the maturity period of the Promissory Note is 60 months coupled with the early redemption option which is exercisable at the Company's discretion, it also provides greater flexibility to the Company in its cash management planning. Accordingly, we consider the payment method to be fair and reasonable.

## 10. Financial effects of the Acquisition on the Group

### (A) *Earnings*

Upon Completion, the Target Company will become an indirect non-wholly owned subsidiary of the Company as the Company will own 55% indirect equity interests in the Target Company. As such, the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Group in accordance with applicable accounting standards.

As shown in the Target Company Accountants' Report in Appendix II to the Circular, the audited revenue and profit after taxation of the Target Company for the year ended 31 December 2017 were approximately RMB57.1 million and RMB12.3 million, respectively. As shown in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to the Circular, a pro forma gain on a bargain purchase of approximately RMB22.5 million upon Completion will be recognised.

Upon consolidation of the financial results of the Target Company into the consolidated financial statements of the Group, the Management expects that the Acquisition could potentially enhance the revenue generation ability and profitability of the Enlarged Group in light of the favourable historical financial performance of the Target Company.

**(B)** ***Assets and liabilities***

We refer to the NAV and pro forma NAV as at 30 June 2018 of the Group and the Enlarged Group, respectively, with reference to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular.

Accordingly, all assets and liabilities of the Target Company will be consolidated into the Group. As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming Completion takes place on 30 June 2018, the pro forma NAV of the Group as at 30 June 2018 would increase by approximately 41.3% from approximately RMB466.1 million to approximately RMB658.8 million. The increase was mainly attributable to, among others, (i) consolidation of all the assets and liabilities of the Target Company of approximately RMB395.1 million as at 30 June 2018; (ii) the elimination of the financial assets arising from the Capital Contribution of RMB32.0 million; and (iii) the settlement of the Adjusted Consideration, at fair value, totalling approximately RMB167.9 million.

For the avoidance of doubt, the above stated pro forma financial information of the Enlarged Group is for illustrative purpose only. The actual impact on the NAV of the Enlarged Group will be subject to change, as such amount will be calculated based on the fair values of the identifiable assets and liabilities of the Target Company and the Consideration at Completion.

**RECOMMENDATION**

In view of the above and having considered in particular that:

(a) the Acquisition, which involve the acquisition of a company principally engaged in providing loans, is in the ordinary and usual course of the Group's existing principal business of the provision of loans;

(b) the Management's optimistic view of the prospects of the micro-financing industry in the PRC;

(c) the healthy financial performance of the Target Company of a net profit of approximately RMB12.3 million for the year ended 31 December 2017 and it is expected that the net profit will further increase for the years ending 31 December 2018 and 2019 if the Target Company meets the 2018 Profit Condition and 2019 Profit Condition;

(d) the Adjusted Consideration is comparable to the appraised value in the Valuation while the Consideration is at a discount of approximately 19.6% to such appraised value;

(e) the implied P/B Multiples of the Consideration and the Adjusted Consideration are close to the average and median of the Comparable Companies' P/B Multiples and are within the range of the Comparable Companies' P/B Multiples suggesting that the Consideration and Adjusted Consideration are fairly priced;

(f) the NAV and earnings of the Group are expected to be enhanced after Completion; and

(g) the settlement of part of the Consideration by the Promissory Note enables the Group to delay the cash outflow which in turn allows the Group to have a greater flexibility of cash management,

we are of the view that the Acquisition is in the ordinary and usual course of business of the Group and the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution approving the Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
**Opus Capital Limited**
**Koh Kwai Yim**
*Executive Director*

*Ms. Koh Kwai Yim is the Executive Director of Opus Capital Limited and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Ms. Koh has over 17 years of corporate finance experience in Asia and has participated in and completed various financial advisory and independent financial advisory transactions.*

* *For identification purpose only.*

## I. FINANCIAL INFORMATION OF THE GROUP

The consolidated financial information of the Group, together with the accompanying notes, for (i) the years ended 31 December 2015 and 2016 is disclosed on pages I-1 to I-51 of appendix I to the Prospectus; (ii) the year ended 31 December 2017 is disclosed in the annual report of the Company for the year ended 31 December 2017 (pages 32 to 88); and (iii) the six months ended 30 June 2018 is disclosed in the interim report of the Company for the six months ended 30 June 2018 (pages 13 to 36). The Prospectus, the aforesaid annual report and interim report of the Company are available on the Company's website at www.cwl.com and the website of the Stock Exchange at www.hkexnews.hk through the links below:

| | |
|---|---|
| Interim report for the six months ended 30 June 2018 | http://www.cwl.com/file//docs/20180927/27091538047091610.pdf |
| Annual report for the year ended 31 December 2017 | http://www.cwl.com/file//docs/20180425/75291524649677981.pdf |
| Prospectus | http://www.cwl.com/file//docs/20170627/20441498576936300.pdf |

## II. INDEBTEDNESS STATEMENT

As at the close of business on 30 September 2018 being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this circular, the Enlarged Group had the following outstanding indebtedness:

### Bank and other borrowings

As at 30 September 2018, the Enlarged Group had total available banking and other facilitates of approximately RMB1,200,300,000, out of which approximately RMB1,008,300,000 were utilised.

As at 30 September 2018, the Enlarged Group had bank and other loan facility of RMB192,000,000 which was unrestricted and available to be drawn down.

As at 30 September 2018, the Enlarged Group had secured bank borrowings with principal amount of approximately RMB686,959,000, which bear interest between 4.75% to 8.20% per annum and unsecured other borrowings with principal amount of RMB50,000,000, which bears interest at 16.0% per annum.

| | RMB'000 |
|---|---|
| The bank borrowings are repayable as follows: | |
| — Within one year | 294,859 |
| — More than one year but less than two years | 149,488 |
| — More than two years but less than five years | 292,612 |
| | 736,959 |

**Pledge of assets**

As at 30 September 2018, the Enlarged Group's bank borrowings and unutilised banking facilities were secured by certain leased assets of the Enlarged Group, a property jointly owned by the equity owner of the Vendor and a property owned by the brother of a shareholder of the Vendor.

**Amount due to a director**

As at 30 September 2018, the Enlarged Group had outstanding unsecured and interest-free amount due to a director of approximately RMB7,000.

**Amount due to a related company**

As at 30 September 2018, the Enlarged Group had outstanding unsecured and interest-free amount due to a related company of approximately RMB838,000.

**Contingent liabilities**

As at 30 September 2018, the Enlarged Group did not have any material contingent liabilities.

For the purpose of compiling this indebtedness statement, foreign currency amounts have been translated to RMB at the applicable rates of exchange as at close of business on 30 September 2018.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Enlarged Group did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as at close of business on 30 September 2018.

## III. WORKING CAPITAL SUFFICIENCY

The Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the internal resources, the expected completion of the Acquisition and bank borrowings available to the Enlarged Group, the Enlarged Group will have sufficient working capital to satisfy its present requirements for at least twelve months from the date of this circular.

## IV. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Since being listed on the Main Board of the Stock Exchange in 2017, the Group has continued its business of finance leasing, financial leasing related factoring, and advisory services. The Board is always committed to seeking opportunities for performance growth, with an aim to strengthen the existing business segments whenever the right opportunities arise.

The Target Company is principally engaged in provision of small loans to its customers. After the Acquisition, the Enlarged Group's turnover will be increased, and the financial results will then be enhanced. In addition, the Enlarged Group's net assets value will be increased and the financial position will be strengthened as well. Looking forward, the Directors consider that the growth in financial needs of the PRC's small and medium enterprises and individuals as an alternative source of financing to traditional sources of financing will be sustained for the coming years. In anticipation of such growth potential, the Enlarged Group will continue to expand its customer base, as well as optimise risk review mechanism, risk control and after-loan asset management. The Enlarged Group will continue to develop in a prudent manner so as to enhance asset quality and minimise overall asset risk exposure.

*The following is the text of a report, prepared for the sole purpose of inclusion in this document, from the independent reporting accountants, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong:*

MOORE STEPHENS

Moore Stephens CPA Limited
801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong
T +852 2375 3180
F +852 2375 3828
www.moorestephens.com.hk

大華馬施雲
會計師事務所有限公司

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WEALTHY WAY GROUP LIMITED**

**INTRODUCTION**

We report on the historical financial information of 浩森小額貸款股份有限公司 (for transliteration purpose, Shenzhen Haosen Credit Joint Stock Company Limited) (the "Target Company") set out on pages II-4 to II-37, which comprises the statements of financial position of the Target Company as at 31 December 2015, 2016, 2017 and 30 June 2018, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the years ended 31 December 2015, 2016, 2017 and the six months ended 30 June 2018 (the "Relevant Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-37 forms an integral part of this report, which has been prepared for inclusion in the circular of Wealthy Way Group Limited (the "Company") dated 21 November 2018 (the "Circular") in connection with the proposed acquisition of 47% equity interest in the Target Company by the Company.

**DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION**

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

## REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountant's Reports on Historical Financial Information in Investment Circulars*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the Target Company's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Target Company's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial positions of the Target Company as at 31 December 2015, 2016, 2017 and 30 June 2018 and of its financial performance and cash flows for each of the Relevant Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

## REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Target Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial*

*Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

## REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

### Adjustments

In preparing the Historical Financial Information, no adjustments to the financial statements of the Target Company (the "Underlying Financial Statements") have been made.

### Dividends

We refer to Note 11 to the Historical Financial Information which states that no dividend has been paid by the Target Company or recommended by the Target Company's Directors in respect of the Relevant Period.

**Moore Stephens CPA Limited**
*Certified Public Accountants*

**Hung, Wan Fong Joanne**
Practising Certificate Number: P05419
Hong Kong
21 November 2018

## I. HISTORICAL FINANCIAL INFORMATION

### Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

For the purpose of this report, the Target Company's Directors have prepared the Underlying Financial Statements for the Relevant Period in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The Underlying Financial Statements for each of the Relevant Period were audited by Moore Stephens CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## STATEMENTS OF COMPREHENSIVE INCOME

| | | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| **Revenue** | *7* | 48,507 | 48,431 | 57,087 | 23,993 | 40,982 |
| Other income | *8* | 73 | 231 | 359 | 348 | 73 |
| Administrative and other expenses | | (15,839) | (13,123) | (11,762) | (5,766) | (5,431) |
| Employee benefit expenses | *10* | (16,192) | (15,322) | (15,374) | (7,176) | (7,863) |
| Allowance for expected credit losses ("ECLs") on loan receivables, net | *10* | (48,463) | 48,430 | (10,920) | 6,340 | (15,347) |
| Bad debts (written off)/ recovery of bad debts | *10* | — | (3,762) | 439 | 101 | (62) |
| Finance costs | *9* | (5,214) | (4,434) | (9,231) | (4,180) | (7,050) |
| **(Loss)/profit before income tax** | | (37,128) | 60,451 | 10,598 | 13,660 | 5,302 |
| Income tax credit/(expense) | *12* | 8,943 | (12,147) | 1,749 | (3,903) | (1,325) |
| **(Loss)/profit and total comprehensive (loss)/ income for the year/period** | | (28,185) | 48,304 | 12,347 | 9,757 | 3,977 |

## STATEMENTS OF FINANCIAL POSITION

| | | As at 31 December | | | As at 30 June |
|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **ASSETS AND LIABILITIES** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *13* | 9,386 | 6,061 | 3,770 | 2,551 |
| Deferred tax assets | *14* | 26,714 | 15,538 | 17,606 | 18,891 |
| Loan receivables | *15* | 2,295 | 2,002 | 7,918 | 10,174 |
| | | 38,395 | 23,601 | 29,294 | 31,616 |
| **Current assets** | | | | | |
| Loan receivables | *15* | 242,597 | 301,791 | 404,595 | 513,382 |
| Prepayments, deposits and other receivables | *16* | 1,079 | 861 | 982 | 547 |
| Due from related companies | *19* | 285 | 285 | 251 | 251 |
| Tax recoverable | | 647 | 4,950 | 5,531 | 3,613 |
| Cash and bank balances | *17* | 10,999 | 16,787 | 13,549 | 10,216 |
| | | 255,607 | 324,674 | 424,908 | 528,009 |
| **Current liabilities** | | | | | |
| Accruals and other payables | *18* | 8,564 | 9,533 | 12,275 | 13,721 |
| Due to a related company | *19* | — | — | 838 | 838 |
| Bank and other borrowings | *20* | 55,000 | 60,000 | 150,000 | 150,000 |
| | | 63,564 | 69,533 | 163,113 | 164,559 |
| **Net current assets** | | 192,043 | 255,141 | 261,795 | 363,450 |
| **Net assets** | | 230,438 | 278,742 | 291,089 | 395,066 |
| **EQUITY** | | | | | |
| Share capital | *21* | 300,000 | 300,000 | 300,000 | 400,000 |
| Reserve | *22* | (69,562) | (21,258) | (8,911) | (4,934) |
| **Total equity** | | 230,438 | 278,742 | 291,089 | 395,066 |

## STATEMENTS OF CHANGES IN EQUITY

| | Share capital | PRC statutory reserve | Accumulated losses | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 21)* | *(Note 22)* | | |
| **As at 1 January 2015** | 300,000 | — | (41,377) | 258,623 |
| Loss and total comprehensive loss for the year | — | — | (28,185) | (28,185) |
| **As at 31 December 2015 and 1 January 2016** | 300,000 | — | (69,562) | 230,438 |
| Profit and total comprehensive income for the year | — | — | 48,304 | 48,304 |
| Transfer to reserve | — | 4,830 | (4,830) | — |
| **As at 31 December 2016 and 1 January 2017** | 300,000 | 4,830 | (26,088) | 278,742 |
| Profit and total comprehensive income for the year | — | — | 12,347 | 12,347 |
| Transfer to reserve | — | 1,235 | (1,235) | — |
| **As at 31 December 2017 and 1 January 2018** | 300,000 | 6,065 | (14,976) | 291,089 |
| Profit and total comprehensive income for the period | — | — | 3,977 | 3,977 |
| Transfer to reserve | — | 398 | (398) | — |
| **Transaction with owners:** | | | | |
| Capital contribution *(Note 21)* | 100,000 | — | — | 100,000 |
| **As at 30 June 2018** | 400,000 | 6,463 | (11,397) | 395,066 |
| **As at 1 January 2017** | 300,000 | 4,830 | (26,088) | 278,742 |
| Profit and total comprehensive income for the period (unaudited) | — | — | 9,757 | 9,757 |
| Transfer to reserve | — | 976 | (976) | — |
| **As at 30 June 2017 (unaudited)** | 300,000 | 5,806 | (17,307) | 288,499 |

## STATEMENT OF CASH FLOWS

| | | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (unaudited) | |
| **Cash flows from operating activities** | | | | | | |
| (Loss)/profit before income tax | | (37,128) | 60,451 | 10,598 | 13,660 | 5,302 |
| Adjustments for: | | | | | | |
| Interest income | *8* | (54) | (67) | (90) | (43) | (35) |
| Interest expense | *9* | 5,214 | 4,434 | 9,231 | 4,180 | 7,050 |
| Write back of allowance for ECLs on loan receivables | *10* | (48,859) | (70,731) | (21,064) | (20,505) | (31,649) |
| Allowance for ECLs on loan receivables | *10* | 97,322 | 22,301 | 31,984 | 14,165 | 46,996 |
| Bad debts written off | *10* | — | 3,762 | 3,947 | — | 827 |
| Recovery of bad debts | *10* | — | — | (4,386) | (101) | (765) |
| (Gain)/loss on disposal of property, plant and equipment | *10* | (7) | 1 | 2 | 1 | 4 |
| Depreciation of property, plant and equipment | *10* | 4,364 | 3,329 | 3,363 | 1,416 | 1,350 |
| Operating profit before working capital changes | | 20,852 | 23,480 | 33,585 | 12,773 | 29,080 |
| Increase in loan receivables | | (45,135) | (14,233) | (119,201) | (25,254) | (126,452) |
| (Increase)/decrease in prepayments, deposits and other receivables | | (208) | 218 | (121) | (929) | 435 |
| Increase in balances with related companies | | 1 | — | 872 | 1,218 | — |
| (Decrease)/increase in accruals and other payables | | (278) | 969 | 2,742 | (1,914) | 1,446 |
| Cash (used in)/generated from operations | | (24,768) | 10,434 | (82,123) | (14,106) | (95,491) |
| Interest income | | 54 | 67 | 90 | 43 | 35 |
| Income tax paid | | (4,185) | (5,274) | (900) | (87) | (692) |

| | | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (unaudited) | |
| **Net cash (used in)/generated from operating activities** | | (28,899) | 5,227 | (82,933) | (14,150) | (96,148) |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | | (1,200) | (5) | (1,074) | — | (135) |
| Consideration received from disposal of property, plant and equipment | | 40 | — | — | — | — |
| **Net cash used in investing activities** | | (1,160) | (5) | (1,074) | — | (135) |
| **Cash flows from financing activities** | | | | | | |
| Capital injection | *21* | — | — | — | — | 100,000 |
| Proceeds from new bank and other borrowings | | 89,000 | 80,000 | 200,000 | 159,000 | 109,000 |
| Repayments of bank and other borrowings | | (54,000) | (75,000) | (110,000) | (110,000) | (109,000) |
| Interests paid on bank and other borrowings | *9* | (5,214) | (4,434) | (9,231) | (4,180) | (7,050) |
| **Net cash generated from financing activities** | | 29,786 | 566 | 80,769 | 44,820 | 92,950 |
| **Net (decrease)/increase in cash and cash equivalents** | | (273) | 5,788 | (3,238) | 30,670 | (3,333) |
| Cash and cash equivalents at beginning of year/period | | 11,272 | 10,999 | 16,787 | 16,787 | 13,549 |
| **Cash and cash equivalents at end of year/period** | *17* | 10,999 | 16,787 | 13,549 | 47,457 | 10,216 |

## II. NOTES TO HISTORICAL FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Target Company is a limited company incorporated in the People's Republic of China (the "PRC") on 26 May 2009. The registered office and the principal place of business of the Target Company is located at 4th Floor, Block D, Fortune Plaza Building, Baoyuan Road, Xixiang Street, Baoan District, Shenzhen, PRC. During the Relevant Period, the Target Company was principally engaged in the provision of small loans in the PRC.

The statutory financial statements of the Target Company for the years ended 31 December 2015, 2016 and 2017 were audited by Wongga Partners Certified Public Accountants (SZ) (深圳皇嘉會計師事務所(普通合伙)), a firm of certified public accountants registered in the PRC. These statutory financial statements were prepared in accordance with relevant accounting principles and accounting rules applicable to enterprises established in the PRC.

### 2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. All HKFRSs effective for the accounting period commencing from 1 January 2018, have been adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Period.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 5.

The Historical Financial Information has been prepared under the historical cost convention.

### 3. NEW AND REVISED HKFRSs

In preparing the Historical Financial Information, the Target Company has consistently applied all HKFRSs which are effective for the Target Company's accounting period beginning 1 January 2018 throughout the Relevant Period.

The Target Company has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in the Historical Financial Information:

| | | **Effective for annual reporting periods beginning on or after** |
|---|---|---|
| Amendments to HKRSs | Annual Improvements to HKFRSs 2015–2017 Cycle | 1 January 2019 |
| HK (IFRIC)-Interpretation 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| HKFRS 9 Amendments | Prepayment Features with Negative Compensation | 1 January 2019 |
| HKFRS 16 | Leases | 1 January 2019 |
| HKFRS 10 and HKAS 28 (2011) Amendments | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined* |

* The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2017. The effective date has now been deferred. Early application of the amendments continues to be permitted.

The Target Company has already commenced an assessment of the related impact of adopting the above new and revised HKFRSs. So far, it has concluded that the above new and revised HKFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the Historical Financial Information except for the followings:

**HKFRS 16 *"Leases"***

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Target Company's leasing arrangements were not significant to the Target Company, as can be seen from the total future minimum lease payments under non-cancellable operating leases of approximately RMB16,943,000, RMB12,043,000, RMB9,587,000 and RMB7,393,000 as at 31 December 2015, 2016 and 2017 and 30 June 2018 respectively (see Note 23). Accordingly, management of the Target Company does not expect significant effects on the financial statements of the Target Company arising from the adoption of HKFRS 16 when the standard becomes mandatorily effective.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Historical Financial Information are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

### 4.1 Property, plant and equipment

Property, plant and equipment are stated at cost, less provision for depreciation and impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the item has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to profit or loss in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item, the expenditure is capitalised as an additional cost of the item. When an item of property, plant and equipment is sold, its cost and accumulated depreciation are derecognised and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss.

Depreciation is calculated using the straight-line method to allocate their costs to their residual value over the estimated economic useful life of the individual assets, as follows:

| | |
|---|---|
| Leasehold improvements | The shorter of the lease term and 3–5 years |
| Computer software | 3–5 years |
| Furniture and fixtures | 3–5 years |
| Office equipment | 3–5 years |
| Motor vehicles | 4–5 years |

The assets' residual values and useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

**4.2 Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the recoverable amount of the asset is estimated. An asset's recoverable amount is the higher of the value in use of the asset or cash-generating unit to which it belongs and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the statement of comprehensive income in the period in which it arises.

**4.3 Financial assets**

The Target Company's financial assets mainly comprise financial assets measured at amortised cost including loan receivables, due from related companies, other receivables and cash and cash equivalents.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates their classification at every reporting date.

All financial assets are recognised when, and only when, the Target Company becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

***Measurement and recognition of ECLs***

The Target Company recognises allowances for ECLs on financial assets at amortised cost.

***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Company in accordance with the contract and the cash flows that the Target Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Company is exposed to credit risk.

ln measuring ECLs, the Target Company considers reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date: and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECLs model applies.

Allowance for ECLs on loan receivables which are short term in duration (i.e. loan term of less than one year) are always measured at an amount equal to lifetime ECLs.

For all other financial instruments, the Target Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition in which case the loss allowance is measured at an amount equal to Lifetime ECLs.

***Significant increases in credit risk***

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Company considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Target Company in full, without recourse by the Target Company to actions such as realising security (if any is held). The Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is considered when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractual due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Company.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the allowance for ECLs is recognised as an impairment gain or loss in profit or loss. The Target Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

***Basis of calculation of interest income***

Interest income recognised in accordance with note 4.7 (a) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events;

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

***Write-off policy***

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

When the Target Company determines that a loan has no reasonable prospect of recovery after the Target Company has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approvals obtained from the Target Company's legal, finance and risk management departments.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all the risk and rewards of ownership have been transferred.

**4.4 Financial liabilities**

Management determines the classification of its financial liabilities at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Target Company's financial liabilities include accruals and other payables, due to a related company and bank and other borrowings.

After initial recognition, the financial liabilities are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. The effective interest amortisation is included in finance costs in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest amortisation process.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**4.5 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

***The Target Company as lessee***

Operating leases payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from leased asset are consumed.

### 4.6 Foreign currency translation

The Historical Financial Information is presented in RMB, which is the functional currency of the Target Company. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

### 4.7 Revenue recognition

The Target Company recognises revenue when it transfers control of a product or service to a customer. Revenue excludes amounts collected on behalf of third parties.

The Target Company recognises revenue from the following major sources:

(a) Interest income (as the case may be, including the administration fees that are an integral part of the effective interest rate) from small loans which yield interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(b) Interest income from bank deposits is accrued on a time apportionment basis using the effective interest method.

### 4.8 Employee benefits

***Short-term employee benefits and contributions to defined contribution retirement plans***

The short-term employee benefits are accrued in the year in which the associated services are rendered by employees. The employees of the Target Company are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

***Employee leave entitlement***

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of each reporting period.

***Termination benefits***

Termination benefits are recognised on the earlier of when the Target Company can no longer withdraw the offer of those benefits and when the Target Company recognises restructuring costs involving the payment of termination benefits.

**4.9 Income tax**

Income tax represents the sum of current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carried forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carried forward unused tax credits and unused tax losses can be utilised, except in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**4.10 Cash and cash equivalents**

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash and bank balances which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

**4.11 Borrowing costs**

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

**4.12 Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

**4.13 Segment reporting**

The Target Company identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Target Company's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Target Company's line of business.

The measurement policies the Target Company uses for reporting segment results under HKFRS 8 *Operating Segments* are the same as those used in its financial statements prepared under HKFRSs.

**4.14 Related parties**

(a) A person, or a close member of that person's family, is related to the Target Company if that person:

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of key management personnel of the Target Company or the Target Company's parent; or

(b) An entity is related to the Target Company if any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of the other entity of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Historical Financial Information requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors have considered the development, selection and disclosure of the Target Company's critical accounting judgements and estimates.

**Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

***Allowance for ECLs on loan receivables***

The management reviews the Target Company's portfolio of loans to customers to assess impairment periodically. The allowance for ECLs on loan receivables are estimated based on assumptions about risk of default and ECLs rates. The Target Company exercises judgement in making these assumptions and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at the end of each reporting period.

The Target Company's allowance for ECLs may also take into account the collateral valuation and the management's judgement on the marketability of the collateral properties and customers' capability of payment at the estimated valuation and the actual valuation may differ from the estimation.

ECLs on loan receivable financial assets which are not assessed to be credit impaired are estimated using a calculation model using observable data as at the end of the reporting period, including the difference between (i) the effective interest rates of interest charged by the Target Company for similar categories of the loans and the People's Bank of China ("PBOC") benchmark lending rates; (ii) administrative service cost of the Target Company; and (iii) the weighting of the loan receivables under different categories of loan receivables at each of the reporting dates.

***Estimates of current tax and deferred tax***

The Target Company is subject to income taxes in jurisdictions in which the Target Company operates. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 6. SEGMENT INFORMATION

During the Relevant Period, all of the Target Company's revenue was generated from the provision of small loans to its customers. The Target Company's chief operating decision makers focus on the operating results of the Target Company as a whole. Accordingly, no segment analysis or information about the Target Company's products and services is presented.

### Geographical information

No geographical segment information is presented as the Target Company's revenue are all derived from the PRC based on the location of services delivered and all the Target Company's identifiable assets and liabilities are located in the PRC.

## 7. REVENUE

An analysis of the revenue from the Target Company's principal activities is as follows:

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Interest income from: | | | | | |
| — Unsecured small loans | 27,653 | 23,813 | 26,792 | 9,621 | 28,081 |
| — Guaranteed loans | 17,423 | 21,404 | 26,894 | 13,108 | 10,016 |
| — Pledged loans | 1,726 | 1,301 | 1,776 | 497 | 1,109 |
| Loan overdue administrative fee income | 1,705 | 1,913 | 1,625 | 767 | 1,776 |
| | 48,507 | 48,431 | 57,087 | 23,993 | 40,982 |

## 8. OTHER INCOME

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Bank interest income | 54 | 67 | 90 | 43 | 35 |
| Gain on disposal of property, plant and equipment | 7 | — | — | — | — |
| Sundry income | 12 | 164 | 269 | 305 | 38 |
| | 73 | 231 | 359 | 348 | 73 |

## 9. FINANCE COSTS

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Interests on bank and other borrowings | 5,214 | 4,434 | 9,231 | 4,180 | 7,050 |

## 10. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging/(crediting):

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Auditor's remuneration | 54 | 15 | 24 | 24 | 24 |
| Depreciation of property, plant and equipment | 4,364 | 3,329 | 3,363 | 1,416 | 1,350 |
| Loss on disposal of property, plant and equipment | — | 1 | 2 | 1 | 4 |
| Allowance for ECLs on loan receivables | 97,322 | 22,301 | 31,984 | 14,165 | 46,996 |
| Write back of allowance for ECLs on loan receivables | (48,859) | (70,731) | (21,064) | (20,505) | (31,649) |
| Bad debts written off | — | 3,762 | 3,947 | — | 827 |
| Recovery of bad debts | — | — | (4,386) | (101) | (765) |
| Minimum lease payments paid under operating leases in respect of: | | | | | |
| — Office premises | 4,100 | 4,718 | 4,223 | 2,278 | 1,782 |
| Staff costs (including compensation of key management personnel) | | | | | |
| — Salaries, allowances and benefits in kind | 13,714 | 13,095 | 13,364 | 6,160 | 6,901 |
| — Retirement benefit scheme contributions | 2,478 | 2,227 | 2,010 | 1,016 | 962 |

## 11. DIVIDEND

No dividend was paid or proposed for the Relevant Period.

## 12. INCOME TAX CREDIT/(EXPENSE)

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| PRC Enterprise Income Tax ("EIT") | | | | | |
| — Current tax for the year/period | (3,173) | (971) | (319) | (2,228) | (2,610) |
| — Deferred tax credited/(charged) *(Note 14)* | 12,116 | (11,176) | 2,068 | (1,675) | 1,285 |
| | 8,943 | (12,147) | 1,749 | (3,903) | (1,325) |

EIT arising from the Target Company's operations in the PRC was calculated at 25% of the estimated assessable profits during the Relevant Period.

A reconciliation of the income tax credit/(expense) applicable to (loss)/profit before income tax at the statutory tax rate to the income tax credit/(expense) at the effective tax rate for each year/period is as follows:

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Loss/(profit) before income tax | 37,128 | (60,451) | (10,598) | (13,660) | (5,302) |
| Tax calculated at statutory profit tax rate of 25% | 9,282 | (15,113) | (2,650) | (3,414) | (1,325) |
| Tax effect of non-deductible expenses | (55) | (67) | (4) | — | — |
| Recognition of tax losses not previously recognised | — | — | — | — | — |
| Tax effect on non-taxable items | — | — | — | 1,585 | — |
| Temporary difference not recognised | (284) | 3,033 | 51 | (2,074) | — |
| Utilisation of tax losses not previously recognised | — | — | 4,352 | — | — |
| Income tax credit/(expense) | 8,943 | (12,147) | 1,749 | (3,903) | (1,325) |

**13. PROPERTY, PLANT AND EQUIPMENT**

| | Leasehold improvements *RMB'000* | Computer software *RMB'000* | Furniture and fixtures *RMB'000* | Office equipment *RMB'000* | Motor vehicles *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1 January 2015 | 14,156 | 1,082 | 1,655 | 160 | 2,577 | 19,630 |
| Additions | 1,049 | 8 | 123 | 20 | — | 1,200 |
| Disposals | — | (21) | — | — | (638) | (659) |
| As at 31 December 2015 and 1 January 2016 | 15,205 | 1,069 | 1,778 | 180 | 1,939 | 20,171 |
| Additions | — | 5 | — | — | — | 5 |
| Disposals | — | (15) | — | — | — | (15) |
| As at 31 December 2016 and 1 January 2017 | 15,205 | 1,059 | 1,778 | 180 | 1,939 | 20,161 |
| Additions | — | — | — | — | 1,074 | 1,074 |
| Disposals | (1,445) | (5) | (43) | — | — | (1,493) |
| As at 31 December 2017 and 1 January 2018 | 13,760 | 1,054 | 1,735 | 180 | 3,013 | 19,742 |
| Additions | 135 | — | — | — | — | 135 |
| Disposals | (350) | (18) | (20) | — | — | (388) |
| As at 30 June 2018 | 13,545 | 1,036 | 1,715 | 180 | 3,013 | 19,489 |
| **Accumulated depreciation** | | | | | | |
| As at 1 January 2015 | 4,281 | 440 | 568 | 86 | 1,672 | 7,047 |
| Depreciation | 3,411 | 211 | 335 | 33 | 374 | 4,364 |
| Write back on disposals | — | (20) | — | — | (606) | (626) |
| As at 31 December 2015 and 1 January 2016 | 7,692 | 631 | 903 | 119 | 1,440 | 10,785 |
| Depreciation | 2,425 | 182 | 313 | 35 | 374 | 3,329 |
| Write back on disposals | — | (14) | — | — | — | (14) |
| As at 31 December 2016 and 1 January 2017 | 10,117 | 799 | 1,216 | 154 | 1,814 | 14,100 |
| Depreciation | 2,845 | 105 | 291 | 21 | 101 | 3,363 |
| Write back on disposals | (1,445) | (4) | (42) | — | — | (1,491) |
| As at 31 December 2017 and 1 January 2018 | 11,517 | 900 | 1,465 | 175 | 1,915 | 15,972 |
| Depreciation | 1,116 | 18 | 96 | 3 | 117 | 1,350 |
| Write back on disposals | (350) | (17) | (17) | — | — | (384) |
| As at 30 June 2018 | 12,283 | 901 | 1,544 | 178 | 2,032 | 16,938 |
| **Net book value** | | | | | | |
| As at 31 December 2015 | 7,513 | 438 | 875 | 61 | 499 | 9,386 |
| As at 31 December 2016 | 5,088 | 260 | 562 | 26 | 125 | 6,061 |
| As at 31 December 2017 | 2,243 | 154 | 270 | 5 | 1,098 | 3,770 |
| As at 30 June 2018 | 1,262 | 135 | 171 | 2 | 981 | 2,551 |

## 14. DEFERRED TAX ASSETS

The movements in deferred tax assets attributable to tax losses and impairment on loan receivables during the Relevant Period are as follows:

| | Tax losses | Impairment on loan receivables | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 1 January 2015 | 1,973 | 12,625 | 14,598 |
| Credited to the profit or loss during the year *(Note 12)* | — | 12,116 | 12,116 |
| As at 31 December 2015 and 1 January 2016 | 1,973 | 24,741 | 26,714 |
| Charged to the profit or loss during the year *(Note 12)* | — | (11,176) | (11,176) |
| As at 31 December 2016 and 1 January 2017 | 1,973 | 13,565 | 15,538 |
| Credited to the profit or loss during the year *(Note 12)* | — | 2,068 | 2,068 |
| As at 31 December 2017 and 1 January 2018 | 1,973 | 15,633 | 17,606 |
| (Charged)/credited to the profit or loss during the period *(Note 12)* | (391) | 1,676 | 1,285 |
| As at 30 June 2018 | 1,582 | 17,309 | 18,891 |

## 15. LOAN RECEIVABLES

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Loan receivables, gross | 343,854 | 335,904 | 452,898 | 570,641 |
| Less: Allowance for ECLs | (98,962) | (32,111) | (40,385) | (47,085) |
| Loan receivables, net | 244,892 | 303,793 | 412,513 | 523,556 |
| Analysed as: | | | | |
| Current | 242,597 | 301,791 | 404,595 | 513,382 |
| Non-current | 2,295 | 2,002 | 7,918 | 10,174 |
| | 244,892 | 303,793 | 412,513 | 523,556 |

The loan receivables are arising from the Target Company's small loans to its customers. The loan periods granted to customers are mainly ranging from one week to five years.

During the Relevant Period, the loan receivables bore fixed monthly interest rates ranging from 0.60% to 1.80%, 1.00% to 1.80%, 0.80% to 1.50% and 0.70% to 1.50% for the loan receivables outstanding as at 31 December 2015, 2016, 2017 and 30 June 2018, respectively. The effective interest rates of the above loans to customers ranged from 7.20% per annum to 27.84% per annum, 12.00% per annum to 27.84% per annum, 9.00% per annum to 27.84% per annum and 8.04% per annum to 27.84% per annum respectively. Loans receivables are all denominated in RMB.

Based on the loan commencement date set out in the relevant contracts, ageing analysis of the Target Company's loan receivables, net of allowance for ECLs as at each reporting date is as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Less than 1 month | 35,512 | 106,159 | 125,311 | 98,847 |
| 1 to 3 month(s) | 63,640 | 66,502 | 86,665 | 116,769 |
| 4 to 6 months | 93,886 | 82,966 | 127,917 | 130,188 |
| 7 to 12 months | 47,188 | 44,910 | 69,581 | 172,971 |
| Over 12 months | 4,666 | 3,256 | 3,039 | 4,781 |
| | 244,892 | 303,793 | 412,513 | 523,556 |

Aging analysis of loan receivables, net of allowance for ECLs, prepared based on contractual due date is as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Not yet past due | 215,264 | 276,654 | 407,171 | 512,643 |
| Less than 1 month past due | 11,051 | 4,987 | 3,423 | 5,670 |
| 1 to 3 month(s) past due | 16,644 | 21,221 | 1,118 | 2,612 |
| 4 to 6 months past due | 1,253 | 703 | 561 | 2,286 |
| 7 to 12 months past due | 680 | 228 | 240 | 345 |
| | 244,892 | 303,793 | 412,513 | 523,556 |

**Not yet past due**

Ageing analysis of loan receivables, net of ECLs, prepared based on contractual due date is as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 3 months | 103,565 | 93,099 | 59,808 | 116,112 |
| 4 to 6 months | 85,320 | 159,403 | 97,615 | 153,060 |
| 7 to 12 months | 24,084 | 22,150 | 241,830 | 233,297 |
| Over 12 months | 2,295 | 2,002 | 7,918 | 10,174 |
| | 215,264 | 276,654 | 407,171 | 512,643 |

Loan receivables that were neither past due nor impaired related to a range of customers for whom there was no recent history of default.

As at 31 December 2017, the Target Company pledged its loan receivables amounted to RMB50,000,000 to secure other borrowings of RMB50,000,000 (Note 20).

Movements in provision for impairment and allowance for ECLs on loan receivables were as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of the year/period | 50,499 | 98,962 | 32,111 | 40,385 |
| Allowance for ECLs made during the year/ period *(Note 10)* | 97,322 | 22,301 | 31,984 | 46,996 |
| Write back of allowance for ECLs previously recognised *(Note 10)* | (48,859) | (70,731) | (21,064) | (31,649) |
| Written off as bad debts | — | (18,421) | (2,646) | (8,647) |
| At end of the year/period | 98,962 | 32,111 | 40,385 | 47,085 |

The analysis of credit-impaired loans of the Target Company during the Relevant Period is as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unsecured small loans | 29,216 | 11,098 | 22,976 | 36,993 |
| Guaranteed loans | 69,061 | 20,501 | 15,459 | 8,309 |
| Pledged loans | 685 | 512 | 1,950 | 1,783 |
| | 98,962 | 32,111 | 40,385 | 47,085 |

Analysis of the gross carrying amounts by the Target Company's internal credit rating and year/period end classification:

| | ECLs | | | |
|---|---|---|---|---|
| | As at 31 December | | | As at 30 June |
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Performing | 269,552 | 319,276 | 443,753 | 565,358 |
| Pass | — | — | — | — |
| Doubtful | — | — | — | — |
| Non-performing | 74,302 | 16,628 | 9,145 | 5,283 |
| Total | 343,854 | 335,904 | 452,898 | 570,641 |

Allowance for ECLs on loan receivables which are short term in duration (i.e. loan term of less than one year) are always measured at an amount equal to lifetime ECLs. Allowance for ECLs on loan receivables which are fall due over one year as at reporting dates are measured at an amount of 12-months ECLs.

ECLs on loan receivable financial assets are estimated using a calculation model observable data as at the end of the reporting period, including the difference between (i) the interest rates of interest charged by the Target Company for the loans, and the People's Bank of China ("PBOC") benchmark lending rates; and (ii) administrative service cost of the Target Company. The Target Company has recognised allowance for ECLs, representing approximately 28.8%, 9.6%, 8.9% and 8.3% of the gross carrying amounts, against all loan receivables as at 31

December 2015, 2016 and 2017 and 30 June 2018, respectively, due to the collective assessments which indicated that these receivables may not be fully recoverable because of risks associated with the customers and the industries, in which the customers operate.

The Target Company holds collaterals over the pledged loan receivables and the fair values of the collaterals in respect of such loan receivables are as follows:

| | As at 31 December | | | | | | As at 30 June | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2018 | |
| | Total outstanding loan balances | Fair values of collaterals | Total outstanding loan balances | Fair values of collaterals | Total outstanding loan balances | Fair values of collaterals | Total outstanding loan balances | Fair values of collaterals |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Real estates | — | — | — | — | 16,354 | 16,751 | 12,442 | 21,827 |
| Movable properties | 6,319 | 10,443 | 4,426 | 6,407 | 3,540 | 4,266 | 2,932 | 3,717 |
| | 6,319 | 10,443 | 4,426 | 6,407 | 19,894 | 21,017 | 15,374 | 25,544 |

The collaterals obtained by the Target Company mainly consist of (i) real estates such as buildings and (ii) movable properties such as motor vehicles. All collaterals are registered in accordance with the relevant laws and regulations in the PRC. The management of the Target Company inspects the collaterals and assesses the changes in the value of collaterals regularly during the Relevant Period and as at the end of the reporting period.

In the event of default by customers, the Target Company might sell the collaterals, hence the management of the Target Company monitors the market value of collaterals to ensure the market values of collaterals at the end of reporting period are sufficient to cover the respective outstanding loan receivables from customers.

## 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Prepayments and deposits | 982 | 749 | 891 | 431 |
| Other receivables | 97 | 112 | 91 | 116 |
| | 1,079 | 861 | 982 | 547 |

## 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks. Cash at banks earn interest at floating rates of approximately 0.30% per annum during the Relevant Period, based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2015, 2016, 2017 and 30 June 2018, the Target Company has cash and cash equivalents denominated in RMB amounting to approximately RMB10,999,000, RMB16,787,000, RMB13,549,000 and RMB10,216,000 respectively and were kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

The table below shows changes in the Target Company's liabilities from financing activities. Liabilities arising from financing cash flows were, or future cash flows will be, classified in the Target Company's statement of cash flow as cash flow from financing activities.

| | Bank and other borrowings |
|---|---|
| | *RMB'000* |
| **As at 1 January 2014** | |
| **Changes from financing cash flows:** | |
| Proceeds from bank and other borrowings | 20,000 |
| Repayments of bank and other borrowings | — |
| Interests paid on bank and other borrowings | (313) |
| Total changes from financing cash flows | 19,687 |
| **Other changes:** | |
| Interest expenses | 313 |
| Total other changes | 313 |
| **As at 31 December 2014 and 1 January 2015** | 20,000 |
| **Changes from financing cash flows:** | |
| Proceeds from bank and other borrowings | 89,000 |
| Repayments of bank and other borrowings | (54,000) |
| Interests paid on bank and other borrowings | (5,214) |
| Total changes from financing cash flows | 29,786 |
| **Other changes:** | |
| Interest expenses *(Note 9)* | 5,214 |
| Total other changes | 5,214 |
| **As at 31 December 2015 and 1 January 2016** | 55,000 |
| **Changes from financing cash flows:** | |
| Proceeds from bank and other borrowings | 80,000 |
| Repayments of bank and other borrowings | (75,000) |
| Interests paid on bank and other borrowings | (4,434) |
| Total changes from financing cash flows | 566 |
| **Other changes:** | |
| Interest expenses *(Note 9)* | 4,434 |
| Total other changes | 4,434 |
| **As at 31 December 2016 and 1 January 2017** | 60,000 |
| **Changes from financing cash flows:** | |
| Proceeds from bank and other borrowings | 200,000 |
| Repayments of bank and other borrowings | (110,000) |
| Interests paid on bank and other borrowings | (9,231) |

| | Bank and other borrowings |
|---|---|
| | *RMB'000* |
| Total changes from financing cash flows | 80,769 |
| **Other changes:** | |
| Interest expenses *(Note 9)* | 9,231 |
| Total other changes | 9,231 |
| **As at 31 December 2017 and 1 January 2018** | 150,000 |
| **Changes from financing cash flows:** | |
| Proceeds from bank and other borrowings | 109,000 |
| Repayments of bank and other borrowings | (109,000) |
| Interests paid on bank and other borrowings | (7,050) |
| Total changes from financing cash flows | (7,050) |
| **Other changes:** | |
| Interest expenses *(Note 9)* | 7,050 |
| Total other changes | 7,050 |
| **As at 30 June 2018** | 150,000 |

## 18. ACCRUALS AND OTHER PAYABLES

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Accruals | 1,935 | 1,206 | 1,702 | 1,716 |
| Accrued social insurance and housing provident fund *(note)* | 3,814 | 5,156 | 6,554 | 7,284 |
| Receipt in advance | 2 | 188 | 525 | 5 |
| Other payables | 2,813 | 2,983 | 3,494 | 4,716 |
| | 8,564 | 9,533 | 12,275 | 13,721 |

*Note:* During the Relevant Period, the Target Company had made provisions for social insurance and housing provident fund in accordance with the Social Insurance Law and Regulations on the Management of Housing Provident Fund of the PRC, respectively. These provisions had not yet paid as at 30 June 2018.

## 19. DUE FROM/(TO) RELATED COMPANIES

The amounts due from/(to) related parties are non-trade in nature, unsecured, interest free and repayable on demand. The amounts are denominated in RMB and are expected to settle in full prior to completion of the acquisition.

Details of the amounts due from related companies are as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Names of related companies** | | | | |
| 深圳恒豐房地產有限公司 (for transliteration purpose, Shenzhen Hengfeng Real Estate Co. Limited) *(note)* | 247 | 247 | 247 | 247 |
| 深圳恒豐海悦國際酒店有限公司 (for transliteration purpose, Hengfeng Haiyue International Hotel Co. Limited) ("Hengfeng Haiyue") *(note)* | 33 | 33 | — | — |
| 深圳恒豐物業管理有限公司 (for transliteration purpose, Hengfeng Property Management Co. Limited) *(note)* | 5 | 5 | 4 | 4 |
| | 285 | 285 | 251 | 251 |

The maximum balances during each of the Relevant Period were approximately RMB285,000, RMB285,000, RMB251,000 and RMB251,000, respectively.

Details of the amounts due to a related company are as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Name of a related company** | | | | |
| 深圳市浩森金融投資股份有限公司 (for transliteration purpose, Shenzhen Haosen Financial Investment Co. Limited) *(note)* | — | — | 838 | 838 |

*Note:* The companies are controlled by 廣東恆豐投資集團有限公司 (for transliteration purpose, GD Hengfeng Investment Group Co. Limited) ("GD Hengfang"), the ultimate holding company of the Target Company.

## 20. BANK AND OTHER BORROWINGS

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current** | | | | |
| Bank borrowings — secured | — | — | 100,000 | 100,000 |
| Other borrowings — secured | — | — | 50,000 | — |
| Other borrowings — unsecured | 55,000 | 60,000 | — | 50,000 |
| | 55,000 | 60,000 | 150,000 | 150,000 |

Bank borrowings bore interest at 6.96% per annum and 8.20% per annum as at 31 December 2017 and 30 June 2018, respectively.

Other borrowings bore interest at 15.00% per annum, 15.00% per annum, 6.72% per annum, and 16.00% per annum as at 31 December 2015, 2016, 2017 and 30 June 2018, respectively.

As at 31 December 2017 and 30 June 2018, the Target Company's secured bank borrowings were secured by property with fair value of approximately RMB74,975,000 which is jointly owned by Mr. Lo Wai Ho ("Mr. Lo"), brother of Mr. Lu Nuanpei ("Mr. Lu") the ultimate controlling shareholder of the Target Company and Ms. Lin Yihong, wife of Mr. Lo; and property with fair value of approximately RMB32,903,000 which is owned by Mr. Wang Jiansen, brother of a shareholder of GD Hengfeng.

As at 31 December 2017, the Target Company's secured bank borrowings were jointly guaranteed by GD Hengfeng and Mr. Lu with an aggregate amount up to RMB100,000,000. As at 30 June 2018, the Target Company's secured bank borrowings were jointly guaranteed by GD Hengfeng, Mr. Lu and Ms. Zhang Shaoping, wife of Mr. Lu, with an aggregate amount up to RMB100,000,000.

As at 31 December 2017, the Target Company's secured other borrowings of RMB50,000,000 were pledged by the Target Company's loan receivables whose carrying amounts as at that date amounted to RMB50,000,000 (Note 15).

As at 31 December 2015, 2016 and 30 June 2018, the Target Company's unsecured other borrowings of RMB55,000,000, RMB60,000,000 and RMB50,000,000, respectively, were jointly guaranteed by GD Hengfeng, Mr. Lu and Mr. Lo, with an aggregate amount up to RMB300,000,000.

## 21. SHARE CAPITAL

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Paid-in capital | | | | |
| At the beginning of the year/period | 300,000 | 300,000 | 300,000 | 300,000 |
| Capital injection during the year/period | — | — | — | 100,000 |
| At the end of the year/period | 300,000 | 300,000 | 300,000 | 400,000 |

On 9 May 2018, the shareholders of the Target Company entered into a capital increase agreement with 富道租賃(集團)有限公司 (for transliteration purpose, Wealthy Way (China) Leasing Company Limited) ("CWW Leasing") which Mr. Lo is the ultimate controlling shareholder. CWW Leasing made cash contributions of RMB32,000,000 and RMB68,000,000 to the Target Company in respect of the capital increase on 29 May 2018 and 30 May 2018, respectively.

## 22. RESERVES

### Statutory reserves

In accordance with the relevant laws and regulations of the PRC, the Target Company is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory net profit for each year, as determined in accordance with the applicable PRC accounting standards and regulations, must be allocated to the SRF until the cumulative total of the SRF reaches at least 50% of the registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital. The SRF is not available for dividend distribution to owners. The Target Company's directors have decided that 10% of the net profit, as reported in the statutory financial statements of the Target Company, be appropriated each year to the SRF. For the capitalisation of the SRF into the registered capital, the remaining amount of the SRF shall not be less than 25% of the registered capital.

## 23. OPERATING LEASE COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 4,501 | 4,278 | 3,668 | 3,065 |
| In the second and fifth years, inclusive | 11,339 | 7,765 | 5,919 | 4,328 |
| Over five years | 1,103 | — | — | — |
| | 16,943 | 12,043 | 9,587 | 7,393 |

The Target Company leases office premises under non-cancellable operating lease agreement. The lease terms are between 1 month to 36 months with market rentals and options to renew upon the expiry of the exiting lease agreements. None of the lease include any contingent rents.

## 24. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in this Historical Financial Information, the Target Company has the following material related party transactions in the normal course of its business during the Relevant Period:

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Interest income received from 深圳財富港投資有限公司 (for transliteration purpose, Shenzhen Fortune Port Investment Co. Limited) *(note)* | 567 | 496 | 219 | 219 | — |
| Rental expenses paid to Hengfeng Haiyue | 196 | 218 | 207 | 88 | — |

*Note:* The company is controlled by GD Hengfeng.

## 25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Target Company is exposed to a variety of financial risks which result from the use of financial instruments in its ordinary course of operations. The financial risks include market risks (mainly interest rate risk), credit risk and liquidity risk. Details of these financial instruments are disclosed in the notes below. The Target Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Company's financial performance.

Risk management is carried out by key management under the policies approved by the directors. The Target Company does not have written risk management policies. However, the directors of the Target Company meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks on timely and effective manner. The risks associated with these financial instruments and the policies applied by the Target Company to mitigate these risks are set out below.

### (a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Target Company's cash flow interest rate exposure to the risk of changes in market interest rates relates primarily to the Target Company's bank borrowings which carried interest at floating rates ranging from 6.96% to 8.20% per annum. The management will continue to monitor the interest rate exposure.

The following details are the effective interest rates of the Target Company's financial liabilities at the reporting date:

| | As at 31 December | | | | | | As at 30 June | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2018 | |
| | Effective interest rate | | Effective interest rate | | Effective interest rate | | Effective interest rate | |
| | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* |
| Floating rate bank borrowings | N/A | — | N/A | — | 6.96 per annum | 100,000 | 8.20 per annum | 100,000 |
| Fixed rate other borrowings | 15.00 per annum | 55,000 | 15.00 per annum | 60,000 | 6.72 per annum | 50,000 | 16.00 per annum | 50,000 |
| Total | | 55,000 | | 60,000 | | 150,000 | | 150,000 |

The following table illustrates the sensitivity of the Target Company's profit/loss after income tax for each of the Relevant Period and other components of equity at those dates due to a reasonably possible change in interest rates on its floating rate bank and other borrowings with all other variables held constant at each reporting date:

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Increase/Decrease in basis points ("bp") | | | | | |
| + 50 bp | (41) | (35) | (73) | (33) | (56) |
| – 50 bp | 41 | 35 | 73 | 33 | 56 |

The above sensitivity analysis is prepared based on the assumption that the cash at banks and bank and other borrowings as at reporting dates existed throughout the whole respective financial year/period.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rates over the next twelve months period.

**(b) Credit risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Target Company. It is the Target Company's policy that all customers who wish to obtain loans from the Target Company are subject to management review. Receivable balances are monitored on an ongoing basis. Bank balances of the Target Company are held with financial institutions of good standing. The carrying amounts of loan and other receivables represent the Target Company's maximum exposure to credit risk in relation to its other financial assets. No other financial assets carry a significant exposure to credit risk.

The Target Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

***Allowance for ECLs on loan receivables***

Loan receivables from the provision of small loans to its customer of the Target Company are subject to the ECLs model.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The management of the Target Company estimated and measured the ECLs using a calculation model using observable data as at the end of the reporting period, including the difference between (i) the effective interest rates of interest charged by the Target Company for similar categories of the loans and the People's Bank of China ("PBOC") benchmark lending rates; (ii) administrative service cost of the Target Company; and (iii) the weighting of the loan receivables under different categories of loan receivables at each of the reporting dates.

On that basis, the allowance on ECLs on loan receivables as at 31 December 2015, 2016, 2017 and 30 June 2018 are measured as disclosed in Note 15.

Loan receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery. Impairment losses on loan receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

**(c) Liquidity risk**

Liquidity risk relates to the risk that the Target Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Target Company is exposed to liquidity risk in respect of settlement of other payables and accruals and its financing obligations, and also in respect of its cash flow management. The Target Company's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term. The liquidity policies have been followed by the Target Company during the Relevant Period and are considered by the directors of the Target Company to have been effective in managing liquidity risks.

Analysed below is the Target Company's remaining contractual maturities for its financial liabilities as at 31 December 2015, 2016, 2017 and 30 June 2018. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Target Company can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Target Company is committed to pay.

| | On demand and within 1 year | Over 1 year | Total | Carrying amount |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 December 2015** | | | | |
| Accruals and other payables | 8,562 | — | 8,562 | 8,562 |
| Other borrowings | 56,667 | — | 56,667 | 55,000 |
| | 65,229 | — | 65,229 | 63,562 |
| **As at 31 December 2016** | | | | |
| Accruals and other payables | 9,345 | — | 9,345 | 9,345 |
| Other borrowings | 63,525 | — | 63,525 | 60,000 |
| | 72,870 | — | 72,870 | 69,345 |
| **As at 31 December 2017** | | | | |
| Accruals and other payables | 11,750 | — | 11,750 | 11,750 |
| Due to a related company | 838 | — | 838 | 838 |
| Bank and other borrowings | 155,037 | — | 155,037 | 150,000 |
| | 167,625 | — | 167,625 | 162,588 |
| **As at 30 June 2018** | | | | |
| Accruals and other payables | 13,716 | — | 13,716 | 13,716 |
| Due to a related company | 838 | | 838 | 838 |
| Bank and other borrowings | 161,543 | — | 161,543 | 150,000 |
| | 176,097 | — | 176,097 | 164,554 |

**(d) Fair values of financial instruments**

As at 31 December 2015, 2016 and 2017 and 30 June 2018, all financial instruments are carried at amounts not materially different from their fair values.

## 26. FINANCIAL INSTRUMENTS BY CATEGORY

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets** | | | | |
| *Financial assets measured at amortised cost* | | | | |
| Non-current assets | 2,295 | 2,002 | 7,918 | 10,174 |
| **Current assets** | | | | |
| *Financial assets measured at amortised cost* | | | | |
| Loan receivables | 242,597 | 301,791 | 404,595 | 513,382 |
| Other receivables and refundable deposits | 673 | 693 | 547 | 509 |
| Due from related companies | 285 | 285 | 251 | 251 |
| Cash and bank balances | 10,999 | 16,787 | 13,549 | 10,216 |
| | 254,554 | 319,556 | 416,942 | 524,358 |
| | 256,849 | 321,558 | 426,860 | 534,532 |
| **Financial liabilities** | | | | |
| *Financial liabilities measured at amortised cost* | | | | |
| Accruals and other payables | 8,562 | 9,345 | 11,750 | 13,716 |
| Due to a related company | — | — | 838 | 838 |
| Bank and other borrowings | 55,000 | 60,000 | 150,000 | 150,000 |
| | 63,562 | 69,345 | 162,588 | 164,554 |

## 27. CAPITAL RISK MANAGEMENT

The Target Company's objectives of managing capital is to safeguard the Target Company's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Company may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debts. No changes in the objectives, policies or processes for managing capital were made during the Relevant Period.

The capital structure of the Target Company consists of share capital.

## 28. CONTINGENT LIABILITIES

At each reporting date, the Target Company did not have any significant contingent liabilities.

## 29. ULTIMATE HOLDING COMPANY AND ULTIMATE CONTROLLING SHAREHOLDER

In the opinion of the directors of the Target Company, the ultimate holding company and the ultimate controlling shareholder of the Target Company are GD Hengfeng and Mr. Lu, respectively.

### 30. EVENT AFTER THE REPORTING PERIOD

Except as disclosed elsewhere in this Historical Financial Information, there are no other material subsequent events undertaken by the Target Company after 30 June 2018.

### 31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 30 June 2018 and up to the date of this Historical Financial Information.

The followings are management discussion and analysis of the Target Company for the three years ended 31 December 2017 and the six months ended 30 June 2018. The financial data and information contained in this section are mainly based on the information contained in Appendix II to this circular.

## (i) BUSINESS AND FINANCIAL PERFORMANCE

The Target Company is a company established in the PRC with limited liability on 26 May 2009. It is a financial institution primarily engaged in the provision of small loans to its customers in Shenzhen, the PRC. As at the Latest Practicable Date, the Target Company operated eight branches throughout Shenzhen, the PRC. The Target Company is under the supervision of, and granted a small loan company license by 深圳市人民政府金融發展服務辦公室 (Shenzhen Municipal Government Financial Development Services Office*). The Target Company's operations are headquartered in Shenzhen, the PRC. The management of the Target Company has determined that it only has one operating segment. For the three years ended 31 December 2017 and the six months ended 30 June 2018, the Target Company's target customers are individuals and small private companies in the PRC, and as at the Latest Practicable Date, the Target Company focused more on those who need urgent fund without providing any guarantee and security.

Set out below is the financial summary on the Target Company for the three years ended 31 December 2017 and the six months ended 30 June 2017 and 2018:

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Revenue** | 48,507 | 48,431 | 57,087 | 23,993 | 40,982 |
| **(Loss)/profit before income tax** | (37,128) | 60,451 | 10,598 | 13,660 | 5,302 |
| **(Loss)/profit and total comprehensive (loss)/income for the year/period** | (28,185) | 48,304 | 12,347 | 9,757 | 3,977 |

### Revenue

The Target Company generates revenue from loans it provides to customers. The types of loans provided include unsecured small loans and guaranteed/pledged loans. The effective interest rates of the pledged/unsecured small loans to customers ranged from 23.28% per annum to 27.84% per annum, 23.28% per annum to 27.84% per annum, 23.30% per annum to 27.84% per annum and 23.28% per annum to 27.84% per annum for the loan receivables outstanding as at 31 December 2015, 2016, 2017 and 30 June 2018, respectively. The effective interest rates of the guaranteed loans to customers ranged from 7.20% per annum to 12.00% per annum, 12.00% per annum, 9.00% per annum to 12.00% per annum and 8.04% per annum to 12.00% per annum for the loan receivables outstanding as at 31 December 2015, 2016, 2017 and 30 June 2018, respectively.

An analysis of the revenue from the Target Company's principal activities is as follows:

| | Year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Interest income from: | | | | | |
| — Unsecured small loans | 27,653 | 23,813 | 26,792 | 9,621 | 28,081 |
| — Guaranteed loans | 17,423 | 21,404 | 26,894 | 13,108 | 10,016 |
| — Pledged loans | 1,726 | 1,301 | 1,776 | 497 | 1,109 |
| Loan overdue administrative fee income | 1,705 | 1,913 | 1,625 | 767 | 1,776 |
| | 48,507 | 48,431 | 57,087 | 23,993 | 40,982 |

The Target Company recorded revenue for the three years ended 31 December 2017 of approximately RMB48.5 million, RMB48.4 million and RMB57.1 million, respectively. The Target Company recorded revenue for the six months ended 30 June 2017 and 2018 of approximately RMB24.0 million and RMB41.0 million, respectively. The Target Company's revenue remained relatively stable for the two years ended 31 December 2016, and then showed an increasing trend, mainly attributable to the Target Company's business expansion, especially on unsecured small loans in 2018, which bears higher effective interest rate.

The revenue of the Target Company was mainly contributed by individual customers, representing approximately 90.0%, 86.0%, 92.0%, 89.0% and 95.0% for the three years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, respectively.

**Administrative and other expenses**

The Target Company's administrative and other expenses decreased by approximately 17.1% or approximately RMB2.7 million from approximately RMB15.8 million for the year ended 31 December 2015 to approximately RMB13.1 million for the year ended 31 December 2016, and further decreased by approximately 9.9% or approximately RMB1.3 million to approximately RMB11.8 million for the year ended 31 December 2017. Such decrease was primarily attributable to the charity donation of approximately RMB1.0 million in 2015, and the decrease in marketing expenses due to more efficient ways of promotions adopted by the Target Company.

The Target Company's administrative and other expenses decreased by approximately 6.9% or approximately RMB0.4 million from approximately RMB5.8 million for six months ended 30 June 2017 to approximately RMB5.4 million for the six months ended 30 June 2018. Such decrease was primarily attributable to closing of two branches by end of 2017. Such closing are the result of the Target Company's review and adjustment on the site planning of the branches. As there are other branches nearby which can cover the area, the Target Company's future business would not be affected.

**Employee benefit expenses**

The Target Company's employee benefit expenses decreased by approximately 5.6% or approximately RMB0.9 million from approximately RMB16.2 million for the year ended 31 December 2015 to approximately RMB15.3 million for the year ended 31 December 2016 due to decrease in the number of staff from 170 as at 31 December 2015 to 146 as at 31 December 2016 resulting from operation efficiency improvement, and remained stable for the year ended 31 December 2017.

The Target Company's employee benefit expenses increased by approximately 9.7% or approximately RMB0.7 million from approximately RMB7.2 million for the six months ended 30 June 2017 to approximately RMB7.9 million for the six months ended 30 June 2018. Such increase was primarily attributable to the increase in commission paid to staff for increasing business.

**Allowance for expected credit losses ("ECLs") on loan receivables**

The Target Company recorded net allowance for ECLs on loan receivables for the three years ended 31 December 2017 of approximately RMB48.5 million, RMB–48.4 million and RMB10.9 million respectively. The Target Company recorded net allowance for ECLs on loan receivables for the six months ended 30 June 2017 and 2018 of approximately RMB6.3 million and RMB–15.3 million respectively.

ln measuring ECLs, the Target Company considers reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions. ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date: and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECLs model applies.

In accordance with HKFRS 9, in a basic lending arrangement the most significant elements of interest are consideration for the time value of money and credit risk. In such an arrangement, interest consists of consideration for (i) the time value of money; (ii) the credit risk associated with the principal amount outstanding during a particular period of time; (iii) other basic lending risks and costs; and (iv) a profit margin. HKFRS 9 also considers for the administrative costs be a part of interest. The Target Company applies this approach (i.e. the calculation model) of using the effective interest rate which is based on the contracted interest rate of the relevant loan agreement as the starting point to consider and assess the elements contained in the interest rate charged to the Target Company's customers, and reducing all the elements that are not related to credit risk, in formulating a rate of ECL of the Target Company in accordance with HKFRS 9 during the three years ended 31 December 2017 and the six months ended 30 June 2018. ECLs on loan receivable financial assets were estimated using a calculation model using observable data as at the end of the reporting period, including the difference between (i) the effective interest rates of interest charged by the Target Company for similar categories of the loans; (ii) the People's Bank of China ("PBOC") benchmark lending rates; (iii) administrative service costs of the Target Company; and (iv) the weighting of the loan receivables under different categories of loan receivables at each of the reporting dates.

The Target Company's management has considered their major administrative costs for the loan transactions, including internal due diligence work, background search and continuous monitoring of the financial status of the borrowers, etc. The Target Company has considered the charging rate of the due diligence services over the relevant customers' borrowing are similar to the portion of the administrative costs comprised in the interest rate charged by the Target Company. In the opinion of the Target Company's management, these administrative costs are justified to be included in the calculation model of the assessment of ECLs rate. In addition, the directors of the Target Company consider that the PBOC benchmark lending rates are the most representative profit margin rates of the lending market in the PRC.

Therefore, there were various factors which led to the fluctuations in the allowance for ECLs for each type of loan receivables during the three years ended 31 December 2017 and the six months ended 30 June 2017 and 2018 such as the loan receivable balances, size of loans, contracted interest rates, contractual periods and default rate (if applicable). In general, an overall increasing trend of the loan receivables balance resulted in an increase in net allowance of ECLs; and the higher interest income, caused by a higher interest rate charged and longer loan period, would lead to a higher effective rate of ECLs.

The impairment requirements in HKFRS 9 are based on ECL model, a new introduced model that eliminate the incurred loss model in accordance with HKAS 39, which was largely backward looking and required something to be happened in the past that the loans had got worse in order to book an impairment. In order to avoid delaying the recognition of impairment losses, HKFRS 9 introduces into a new forward-looking expected loss model very much looks forward expect to happen over the life of the loans. When the Target Company originates a loan and put it on its book, it will have that point to recognise an impairment loss, which either in a twelve-month expected loss when the Target Company first originates a loan or step up to a life-time expected loss if a continuous assessment of the loan which has significant increase in credit risk since it was first originated, that is the loss is associated to the probability the loan will be defaulted.

It is a tricky situation for a small loan company to apply HKFRS 9 in practice, given the Target Company's duration of loans are both short-term and long-term in nature, as per HKFRS 9 the allowance for ECLs required could be the entire life of the loan, a lot of factors that could happen along that period and those changes can cause volatility in the provision and hit the profit or loss account.

The fluctuations in the loss allowance will vary by every small loan company though, depending on its portfolio and current practices. Entities with shorter term and more stable and higher credit rated customers are likely to be less significantly affected.

Therefore, the fluctuations on the net allowance for ECLs of the Target Company are expected to continue if the Target Company's loan receivables keep fluctuated significantly, which may result in fluctuations on the Target Company's net profit in the future. However, the management of the Target Company considers such fluctuations common to the small loan companies. On the other hand, it is expected that the allowance for ECLs to be stable and less volatile if the loan receivables remained stable in the coming years.

In addition, the Target Company shall always account for ECLs, and update the loss allowance for changes in these ECL at each reporting date to reflect changes in credit risk since initial recognition. It is always difficult in practice for the management of the Target Company to take any actions to reduce the fluctuations or to accurately predict the probabilities of default in this regard. However, the management of the Target Company would always endeavor to implement stringent credit control measures when accepting the customers' loan applications to minimise realised credit loss and keep a stable and quality loan portfolio.

The Target Company's net allowance for ECLs on loan receivables represented the gross amount of allowance made for ECLs on loan receivables net of the write back of allowance for ECLs on loan receivables in the respective year/period.

*Allowance for ECLs on loan receivables*

The Target Company's allowance for ECLs on loan receivables decreased by approximately RMB75.0 million, or approximately 77.1%, from approximately RMB97.3 million for the year ended 31 December 2015 to approximately RMB22.3 million for the year ended 31 December 2016. The decrease was mainly attributable to the decrease of overall effective rates for ECLs on loan receivables due to less non-performing loan receivables during the year ended 31 December 2016 as compare to the year ended 31 December 2015.

The Target Company's allowance for ECLs on loan receivables increased by approximately RMB9.7 million, or approximately 43.4%, from approximately RMB22.3 million for the year ended 31 December 2016 to approximately RMB32.0 million for the year ended 31 December 2017. The increase was mainly attributable to the combined effect of the increase in the principal amount of loan receivables and longer loan duration as at 31 December 2017 as compared to 31 December 2016.

The Target Company's allowance for ECLs on loan receivables increased by approximately RMB32.8 million, or approximately 231.8%, from approximately RMB14.2 million for the six months ended 30 June 2017 to approximately RMB47.0 million for the six months ended 30 June 2018. The increase was mainly attributable to the combined effect of the increase in the principal amount of loan receivables and longer loan duration as at 30 June 2018 as compared to 30 June 2017.

*Write back on allowance for ECLs on loan receivables*

The Target Company's write back of allowance for ECLs on loan receivables increased by approximately RMB21.9 million, or approximately 44.8%, from approximately RMB–48.9 million for the year ended 31 December 2015 to approximately RMB–70.7 million for the year ended 31 December 2016. The increase was mainly attributable to the increase in the amount of loan receivables settled during the year ended 31 December 2016 as compare to the year ended 31 December 2015.

The Target Company's write back of allowance for ECLs on loan receivables decreased by approximately RMB49.7 million, or approximately 70.2%, from approximately RMB–70.7 million for the year ended 31 December 2016 to approximately RMB–21.1 million for the year ended 31 December 2017. The decrease was mainly attributable to the decrease in the amount of loan receivables that settled during the year ended 31 December 2017 as compared to the year ended 31 December 2016.

The Target Company's write back of allowance for ECLs on loan receivables increased by approximately RMB11.1 million, or approximately 54.4%, from approximately RMB–20.5 million for the six months ended 30 June 2017 to approximately RMB–31.6 million for the six months ended 30 June 2018. The increase was mainly attributable to the increase in the amount of loan receivables settled during the six months ended 30 June 2018 as compare to the six months ended 30 June 2017.

**Net bad debts written off**

The Target Company recorded net bad debts written off, representing bad debts written off offset by recovery of bad debts, for the year ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018 of approximately RMB3.8 million, RMB–0.4 million, RMB–0.1 million and RMB0.06 million, respectively. Loan receivables were written off when there was no reasonable expectation of recovery.

**Finance costs**

The Target Company's finance costs decreased by approximately 15.4% or approximately RMB0.8 million from approximately RMB5.2 million for the year ended 31 December 2015 to approximately RMB4.4 million for the year ended 31 December 2016 mainly due to less borrowings occurred during 2016 in spite of slightly increased borrowings as at 31 December 2016.

The Target Company's finance costs increased by approximately 108.1% or approximately RMB4.8 million from approximately RMB4.4 million for the year ended 31 December 2016 to approximately RMB9.2 million for the year ended 31 December 2017. Such increase was primarily attributable to the combined effects of (i) the net increase in borrowings from approximately RMB60.0 million as at 31 December 2016 to approximately RMB150.0 million as at 31 December 2017; and (ii) the decrease in the interest rate for borrowings from approximately 15.0% per annum as at 31 December 2016 to approximately 6.72 – 6.96% per annum as at 31 December 2017.

The Target Company's finance costs increased by approximately 69.0% or approximately RMB2.9 million from approximately RMB4.2 million for the six months ended 30 June 2017 to approximately RMB7.1 million for the six months ended 30 June 2018. Such increase was primarily attributable to the combined effects of (i) the net increase in borrowings from RMB109 million as at 30 June 2017 to RMB150.0 million as at 30 June 2018; and (ii) the increase in the interest rate for borrowings from approximately 6.72% to 15% per annum as at 30 June 2017 to approximately 8.2% – 16.0% per annum as at 30 June 2018.

**Profit after tax**

The Target Company recorded net loss after tax for the year ended 31 December 2015 mainly due to the net allowance for ECLs on loan receivables of approximately RMB48.5 million. The Target Company's profit after tax increased by approximately 271.3% or approximately RMB76.5 million from approximately RMB–28.2 million for the year ended 31 December 2015 to approximately RMB48.3 million for the year ended 31 December 2016. Such increase was primarily attributable to net allowance for ECLs on loan receivables of approximately RMB–48.3 million, resulting from the write back of allowance for ECLs on loan receivables of approximately RMB70.7 million.

The Target Company's profit after tax decreased by approximately 74.5% or approximately RMB36.0 million from approximately RMB48.3 million for the year ended 31 December 2016 to approximately RMB12.3 million for the year ended 31 December 2017. Such decrease was primarily attributable to net allowance for ECLs on loan receivables of approximately RMB10.9 million, and increase in finance cost.

The Target Company's profit after tax decreased by approximately 59.2% or approximately RMB5.8 million from approximately RMB9.8 million for the six months ended 30 June 2017 to approximately RMB4.0 million for the six months ended 30 June 2018. Such decrease was primarily attributable to net allowance for ECLs on loan receivables of approximately RMB15.3 million as compared to approximately RMB–6.3 million for the prior period, and increase in finance cost.

The adjustment to the consideration as mentioned in the "Letter from the Board" in this circular is based on the net profit after tax of the Target Company prepared according to the PRC accounting standard, which does not include the requirements on ECL. The Directors consider such basis is fair and reasonable given that such net profit after tax without the trickily fluctuating effect of ECL can be better measureable and easily compared to actual historical performances of the Target Company.

## (ii) FINANCIAL POSITION

### Loan Receivables

The Target Company recorded gross loan receivables of approximately RMB343.9 million, RMB335.9 million, RMB452.9 million and RMB570.6 million as at 31 December 2015, 2016 and 2017 and 30 June 2018 respectively. Such fluctuations were generally in line with the fluctuations on revenue of the Target Company over the same period. After adjustment on allowance for ECLs, the Target Company recorded net loan receivables of approximately RMB244.9 million, RMB303.8 million, RMB412.5 million and RMB523.6 million as at 31 December 2015, 2016 and 2017 and 30 June 2018 respectively.

Based on the loan commencement date set out in the relevant contracts, ageing analysis of the Target Company's loan receivables, net of allowance for ECLs as at each reporting date is as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Less than 1 month | 35,512 | 106,159 | 125,311 | 98,847 |
| 1 to 3 month(s) | 63,640 | 66,502 | 86,665 | 116,769 |
| 4 to 6 months | 93,886 | 82,966 | 127,917 | 130,188 |
| 7 to 12 months | 47,188 | 44,910 | 69,581 | 172,971 |
| Over 12 months | 4,666 | 3,256 | 3,039 | 4,781 |
| | 244,892 | 303,793 | 412,513 | 523,556 |

Aging analysis of loan receivables, net of allowance for ECLs, prepared based on contractual due date is as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Not yet past due | 215,264 | 276,654 | 407,171 | 512,643 |
| Less than 1 month past due | 11,051 | 4,987 | 3,423 | 5,670 |
| 1 to 3 month(s) past due | 16,644 | 21,221 | 1,118 | 2,612 |
| 4 to 6 months past due | 1,253 | 703 | 561 | 2,286 |
| 7 to 12 months past due | 680 | 228 | 240 | 345 |
| | 244,892 | 303,793 | 412,513 | 523,556 |

Loan receivables that were neither past due nor impaired related to a range of customers for whom there was no recent history of default.

**Deferred tax assets**

The Target Company recorded deferred tax assets of approximately RMB26.7 million, RMB15.5 million, RMB17.6 million and RMB18.9 million as at 31 December 2015, 2016 and 2017 and 30 June 2018 respectively. Such deferred tax assets were mainly attributable to impairment on loan receivables during the periods.

**Accruals and other payables**

The Target Company recorded accruals and other payables of approximately RMB8.6 million, RMB9.5 million, RMB12.3 million and RMB13.7 million as at 31 December 2015, 2016 and 2017 and 30 June 2018 respectively. Such accruals and other payables mainly comprised accrued social insurance and housing provident fund and other payables.

**Bank and other borrowings**

The Target Company recorded bank and other borrowings of approximately RMB55.0 million, RMB60.0 million, RMB150.0 million and RMB150.0 million as at 31 December 2015, 2016 and 2017 and 30 June 2018 respectively. Such increasing trend was in line with the Target Company's business expansion.

Set out below is the details of the Target Company's bank and other borrowings as at the dates indicated:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current** | | | | |
| Bank borrowings — secured | — | — | 100,000 | 100,000 |
| Other borrowings — secured | — | — | 50,000 | — |
| Other borrowings — unsecured | 55,000 | 60,000 | — | 50,000 |
| | 55,000 | 60,000 | 150,000 | 150,000 |

Bank borrowings bore interest rate at 6.96% per annum and 8.20% per annum as at 31 December 2017 and 30 June 2018, respectively.

Other borrowings bore interest rate at 15.00% per annum, 15.00% per annum, 6.72% per annum, and 16.00% per annum as at 31 December 2015, 2016, 2017 and 30 June 2018, respectively. The significant lower interest rate as at 31 December 2017 compared to that of 31 December 2015 and 2016 and 30 June 2018 was mainly attributable to the availability of assets pledged for the borrowings, i.e. the Target Company's loan receivables.

## (iii) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Capital structure and gearing ratio

For the three years ended 31 December 2017 and the six months ended 2018, the Target Company primarily financed its working capital through equity contributions from shareholders, borrowings and cash flows from operations.

As at 31 December 2015, the capital structure of the Target Company consisted of share capital of RMB300.0 million and interest-bearing borrowings of approximately RMB55.0 million. As at 31 December 2016, the capital structure of the Target Company consisted of share capital of RMB300.0 million and interest-bearing borrowings of approximately RMB60.0 million. As at 31 December 2017, the capital structure of the Target Company consisted of share capital of RMB300.0 million and interest-bearing borrowings of approximately RMB150.0 million. As at 30 June 2018, the capital structure of the Target Company consisted of share capital of RMB400.0 million and interest-bearing borrowings of approximately RMB150.0 million.

The gearing ratio of the Target Company was approximately 18.3%, 20.0% and 50.0% as at 31 December 2015, 2016 and 2017. Such increase was mainly attributable to increased borrowings in line with the business expansion. The gearing ratio as at 30 June 2018 decreased to 37.5% mainly due to capital increase.

### Treasury policies

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the cash and cash equivalents of the Target Company were approximately RMB11.0 million, RMB16.8 million, RMB13.5 million and RMB10.2 million, respectively. As at 31 December 2015, 2016 and 2017 and 30 June 2018, the Target Company recorded net current assets of approximately RMB192.0 million, RMB255.1 million, RMB261.8 million and RMB363.5 million, respectively.

The Target Company monitors rolling forecast of the liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration of the Target Company's financing plans, compliance of internal financial ratio target and if applicable the external regulatory or legal requirement.

The Target Company raised external funds from banks and other financial institutions. As at 31 December 2015, 2016 and 2017 and 30 June 2018, the borrowings amounted to RMB55.0 million, RMB60.0 million, RMB150.0 million and RMB150.0 million, respectively. They are all short term loans.

**Foreign exchange and interest rate risk**

The cash and cash equivalents and the borrowings of the Target Company were denominated in RMB. The business operation of the Target Company had been conducted in RMB. The management of the Target Company would closely monitor the interest rate exposure of the Target Company and consider hedging significant interest rate exposure should the need arise.

## (iii) MATERIAL INVESTMENTS, ACQUISITIONS OR DISPOSALS

There were no material acquisitions and disposals of subsidiaries and associated companies of the Target Company and no significant investments made during the three years ended 31 December 2017 and the six months ended 2018.

## (iv) PLEDGE OF ASSETS

As at 31 December 2017, the Target Company's other borrowings of RMB50.0 million were secured by the pledge of the Target Company's loan receivables whose carrying amounts as at that date amounted to RMB50.0 million.

## (v) CONTINGENT LIABILITIES

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the Target Company had no material contingent liabilities.

## (vi) CAPITAL COMMITMENTS

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the Target Company did not have any material capital commitment.

## (vii) EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2015, 2016 and 2017 and 30 June 2018, there were 170, 146, 132 and 100 staff in the Target Company, respectively. The employee benefit expenses of the Target Company were approximately RMB16.2 million, RMB15.3 million, RMB15.4 million, RMB7.2 million and RMB7.9 million for the three years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, respectively.

The Target Company reviews staff remuneration once a year, or as its management considers appropriate. Changes in remuneration are based on a range of factors including the Target Company's performance, the competitiveness of remuneration with the external market, and individual employee's performance. Target Company's employees were paid at fixed remuneration with discretionary bonus and benefits of medical insurance, state retirement plans, share options and necessary training.

**(viii) FUTURE PROSPECTS**

The Target Company is principally engaged in provision of small loans to its customers in Shenzhen, the PRC. Upon completion of the Acquisition, it is expected that the Target Company will have a synergy effect with the Group's existing business of finance leasing, financial leasing related factoring, and advisory services, and also bring positive influence to the Group's financial results. Together with the existing services provided by the Group, the Acquisition would enable the Group to further expand its investments to the financial market in Shenzhen and expand its business operation.

## A. INTRODUCTION

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") has been prepared by the Directors on the basis of the notes set out below for the purpose of illustrating the effect of the proposed Acquisition on the assets and liabilities of the Group as if the proposed Acquisition had been completed on 30 June 2018.

The Unaudited Pro Forma Financial Information is prepared by the Directors of the Company in accordance with paragraph 4.29 of the Listing Rules based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2018 as set out in the interim report of the Group for the six months ended 30 June 2018 which was published on 29 August 2018 and the audited financial information of the Target Company as at 30 June 2018 as set out in the Accountants' Report in Appendix II of this Circular after making certain pro forma adjustments that are (i) directly attributable to the Acquisition and (ii) factually supportable, as further described in the accompany notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the hypothetical nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual assets and liabilities of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2018. Neither does the Unaudited Pro Forma Financial Information purport to predict the Enlarged Group's future assets and liabilities.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Group for the six months ended 30 June 2018, and that of the Target Company as set out in Appendix II of this Circular, and other financial information included elsewhere in is Circular.

## B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 30 JUNE 2018

| | The Group as at 30 June 2018 (unaudited) | The Target Company as at 30 June 2018 (audited) | Pro forma adjustments | | | | Enlarged Group as at 30 June 2018 |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 1)* | *(Note 2)* | *(Note 3)* | *(Note 4)* | *(Note 7)* | |
| **ASSETS AND LIABILITIES** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 2,038 | 2,551 | 180 | | | | 4,769 |
| Intangible assets | | | — | | | | — |
| Interest in a subsidiary | | | 199,858 | (199,858) | | | — |
| Loan and account receivables | 531,446 | 10,174 | 1,050 | | | (1,050) | 541,620 |
| Financial asset at fair value through other comprehensive income | 32,000 | | (32,000) | | | | — |
| Deferred tax assets | 9,844 | 18,891 | (3,026) | | | 3,026 | 28,735 |
| | 575,328 | 31,616 | | | | | 575,124 |
| **Current assets** | | | | | | | |
| Loan and account receivables | 521,512 | 513,382 | 11,052 | | | (11,052) | 1,034,894 |
| Prepayments, deposits and other receivables | 10,480 | 547 | | | | | 11,027 |
| Due from related parties | 73 | 251 | | | | | 324 |
| Tax recoverable | — | 3,613 | | | | | 3,613 |
| Cash and cash equivalents *(Note 5)* | 21,503 | 10,216 | (47,010) | | (2,648) | | (17,939) |
| | 553,568 | 528,009 | | | | | 1,031,919 |
| **Current liabilities** | | | | | | | |
| Deposits from financial leasing customers | 1,430 | — | | | | | 1,430 |
| Accruals and other payables | 4,684 | 13,721 | | | | | 18,405 |
| Due to a related party | — | 838 | | | | | 838 |
| Due to a director | 7 | — | | | | | 7 |
| Deferred income | 2,086 | — | | | | | 2,086 |
| Bank and other borrowings | 137,359 | 150,000 | | | | | 287,359 |
| Contingent consideration payable | — | — | 16,535 | | | | 16,535 |
| Tax payable | 1,825 | — | | | | | 1,825 |
| | 147,391 | 164,559 | | | | | 328,485 |
| **Net current assets** | 406,177 | 363,450 | | | | | 703,434 |
| **Total assets less current liabilities** | 981,505 | 395,066 | | | | | 1,278,558 |
| **Non-current liabilities** | | | | | | | |
| Deposits from financial leasing customers | 35,323 | — | | | | | 35,323 |
| Promissory notes | — | — | 86,744 | | | | 86,744 |
| Bank borrowings | 480,112 | — | | | | | 480,112 |
| Contingent consideration payable | — | — | 17,569 | | | | 17,569 |
| | 515,435 | — | | | | | 619,748 |
| **Net assets** | 466,070 | 395,066 | | | | | 658,810 |

*Notes:*

1. Basis of preparation

   The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules, and based upon: the unaudited consolidated statement of financial position of the Group as at 30 June 2018 as extracted from the interim report of the Group for the six months ended 30 June 2018 which was published on 29 August 2018; and the audited consolidated statement of financial position of the Target Company as at 30 June 2018 as extracted from the accountants' report on the Target Company as set out in Appendix II to this Circular; after giving effect to the pro forma adjustments described in the notes below, as if the Acquisition has been completed as at 30 June 2018 ("Completion Date").

   The Unaudited Pro Forma Financial Information has been prepared in a manner consistent with both the format and accounting policies adopted by the Group in the unaudited interim financial statements for the six months ended 30 June 2018.

2. As disclosed in the announcement of the Company dated 9 May 2018 entered into between, a wholly owned subsidiary of the Company entered into a capital increase agreement ("Capital Increase Agreement") with Guangdong Hengfeng Investment Group Limited (the "Vendor") and agreed to make cash contribution of RMB32,000,000 for increase of the registered capital of the Target Company. Such amount is classified as the financial assets at fair value through other comprehensive income ("FAOCI") as at 30 June 2018.

   Further, pursuant to the acquisition agreement ("Acquisition Agreement") dated 22 August 2018, a wholly-owned subsidiary of the Company (the "Purchaser") and the Vendor, the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell 47% of the issued share capital of the Target Company in accordance with the terms and conditions of the Acquisition Agreement.

   For the purpose of preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, such arrangements are regarded as linked and accounted for a single transaction and reviewed together for the purpose of applying the acquisition method of accounting, hence the consideration paid for the FAOCI is included as additional consideration of the acquisition.

The excess amount of the pro forma fair value of the Target Company's identifiable assets and liabilities acquired over the consideration assumed to be transferred and the non-controlling interest is recognised as pro forma gain on bargain purchase. The pro forma gain is recognised in the consolidated statement of changes in equity as the vendor and Target Company are related to the ultimate controlling shareholder of the Company.

| | *Notes* | *RMB'000* |
|---|---|---|
| Cash consideration | | |
| — First Subscription on 9 May 2018 | *a* | 32,000 |
| — Acquisition on 22 August 2018 | *b* | 47,010 |
| Promissory notes | *c* | 86,744 |
| Add: Contingent consideration payable | *d* | 34,104 |
| Total pro forma cost of the acquisition | | 199,858 |
| Pro forma assumed fair value of the identifiable net assets of the Target Company | *e* | 404,322 |
| Less: Non-controlling interest | *f* | (181,945) |
| | | 222,377 |
| Pro forma gain on bargain purchase | *g* | 22,519 |

Actual goodwill or gain on bargain purchase arising from the acquisition will depend on the fair values of the identifiable assets and liabilities of the Target Company and the consideration determined at the completion date of the acquisition and shall be different to the pro forma gain amount calculated in the above table.

*Notes:*

(a) According to the Capital Increase Agreement, the parties involved agreed to increase the registered capital of Target Company from RMB300,000,000 to RMB400,000,000. The Group agreed to make the cash contribution of RMB32,000,000 in respect of the Capital Increase.

Such capital contributions have been determined through arm's length negotiations among the parties involved after taking into consideration of the amount of the registered capital of the Target Company with reference to, among others, the net assets of the Target Company determined according to the PRC accounting standards of approximately RMB312,869,000 as at 31 December 2017.

(b) The consideration was determined after arm's length negotiation between the Purchaser and the Vendor with reference to, among others, the unaudited net assets of the Target Company determined according to the PRC accounting standard of approximately RMB416,747,000 as at 30 June 2018.

Pursuant to the Acquisition Agreement dated 22 August 2018, the aggregate consideration for the acquisition of 47% equity interest in the Target Company is stated to be approximately RMB156,700,000 (subject to adjustments).

The stated consideration of RMB47,010,000 will be satisfied by cash and of RMB109,690,000 will be settled by issuance of promissory note which will be maturing five years after the Completion Date and carries the interest rate at 3.5% per annum.

On 27 and 29 August 2018, an aggregate refundable deposit of RMB31,340,000 was paid to the Vendor upon the signing of the Acquisition Agreement.

For the purpose of preparation of pro forma financial information, the Acquisition is assumed to be completed on 30 June 2018, and the cash consideration is assumed to be paid and promissory note is assumed to be issued on 30 June 2018 which is classified as non-current liability.

(c) The promissory note of principal amount RMB109,690,000 carries the interest rate at 3.5% per annum and will be maturing five years after the Completion Date.

The promissory note is separated into their two components at initial recognition: the liability component and the derivative component.

The estimate of the pro forma fair value of the promissory note as at 30 June 2018 was measured in accordance to Hong Kong Financial Reporting Standard 13 "Fair Value Measurement". The pro forma fair value of the liability component and the derivative component of the promissory note as at the assumed date of completion of the Acquisition was estimated based on the valuation report issued by an independent valuer, Roma Appraisals Limited ("Roma"). The pro forma fair value of the liability component of the promissory note was measured at the present value of contractual future cash flows discounted at the effective interest rate of 8.9% per annum, taking into account (i) interest rate determined with reference to the yields of China 5-year government bonds and treasury bills; (ii) credit spread determined with reference to the premium compensated from the market comparables with the same credit rating as the Company; and (iii) country risk determined with reference to the default spread of the PRC. Under the terms of the promissory note, the Company may redeem all or part of the outstanding principal amount of the promissory note at any time between the issue date and the day prior to the maturity date. In the opinion of Directors, the fair value of the derivative component is insignificant and hence the derivative component is not separately accounted for.

Upon completion of the Acquisition, the Directors will engage an independent qualified professional valuer to carry out the valuation of the promissory note as at the date of completion of the Acquisition, based on facts and circumstances existing as at that date. The valuation of the promissory note may be significantly different from the pro forma valuation used for the purpose of preparation of the Unaudited Pro Forma Financial Information.

(d) As agreed between the Vendor and the Purchaser in the Acquisition Agreement,

(i) in the event that the audited net profit after tax of the Target Company prepared according to the PRC accounting standards for the financial year ending 31 December 2018 is not less than RMB14,000,000 ("2018 Profit Condition"), the consideration shall be adjusted upwards by RMB19,600,000; and

(ii) (a) conditional upon the satisfaction of the 2018 Profit Condition, in the event that the audited net profit after tax of the Target Company prepared according to the PRC accounting standards for the financial year ending 31 December 2019 is not less than RMB16,000,000 ("2019 Profit Condition"), the consideration shall be adjusted further upwards by RMB19,600,000; or

(ii) (b) in the event of failure to satisfy the 2018 Profit Condition, but 2019 Audited Profit is not less the sum of the amount of the 2019 Profit Condition and the shortfall in the amount of the 2018 Profit Condition, the Consideration shall be adjusted further upwards by RMB39,200,000.

The amount represents the pro forma fair value of contingent consideration payable to be recognised in respect of the performance guarantee arrangement. Upon the occurrence of satisfaction of the Target Company's actual net profits for both the financial years ending 31 December 2018 and 2019 as stated in the Proposed Transactions agreement, the Company shall settle an amount that is subject to adjustment, as to a maximum of RMB39,200,000 payable to the Vendors within 10 business days upon the audited financial statements of the Target Company for the respective financial years are issued. The Contingent Consideration payables should be measured at fair value at each reporting date, with changes in fair value recognised in profit or loss. The pro forma fair value of contingent consideration payable as at the assumed completion date of the Acquisition was estimated by reference to the valuation report issued by Roma. The pro forma fair value is determined by probabilistic approach with possible scenarios under different financial forecasts and adjusted by estimated discount rate.

The estimate of the pro forma fair value of the contingent consideration payable as at 30 June 2018 was measured in accordance to Hong Kong Financial Reporting Standard 13 "Fair Value Measurement". The terms of the contingent consideration payable were used and the major inputs in valuing the fair values of the contingent consideration payable include discount rate and the probability of each possible scenario of financial performance of the Target Company. Changes in subjective input assumptions could materially affect their pro forma fair values.

**The following parameters were used to estimate the pro forma fair value of the contingent consideration payable:**

| | |
|---|---|
| Valuation date 30 June 2018 | |
| Profit condition set by the Vendor for the year ending 31 December 2018 | RMB14,000,000 |
| Profit condition set by the Vendor for the year ending 31 December 2019 | RMB16,000,000 |
| Discount rate | 8.7% |

Based on the financial budget of the Target Company for the financial years ending 31 December 2018 and 2019, the Directors consider that the net profit after tax for the financial years ending 31 December 2018 and 2019 would be close to the respective profit conditions set by the Vendor. By reference to the pro forma fair value as at 30 June 2018 arrived on the basis of valuation carried out by Roma, the net profits after tax of the Target Company for the financial years ending 31 December 2018 and 2019 are estimated under the best case, base case and worst case scenarios and the pro forma fair values of the contingent consideration payable for each possible scenarios for the years ending 31 December 2018 and 2019 are weighted average by their probabilities and the pro forma fair values of the profit condition set by the Vendor for the years ending 31 December 2018 and 2019 are assumed to amount to approximately RMB16,535,000 and RMB17,569,000 respectively as at 30 June 2018 for the purpose of preparation of the Unaudited Pro Forma Financial Information.

Upon completion of the Acquisition, the Directors will engage an independent qualified professional valuer to carry out the valuation of the contingent consideration payable as at the date of completion of the Acquisition, based on facts and circumstances existing as at that date. The valuation of the contingent consideration payable may be significantly different from the assumed valuation used for the purpose of preparation of the Unaudited Pro Forma Financial Information.

(e) Upon the completion, the Group will directly own an aggregate of 55% equity interests in the Target Company. Accordingly, the Target Company will become an indirect non-wholly owned subsidiary of the Company and whose financial statements will be consolidated into the Company's consolidated financial statements from the Acquisition onwards.

The identifiable assets and liabilities of the Target Company acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values as at the completion date of the Acquisition, under acquisition accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combination (HKFRS 3)" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The allocation of the pro forma purchase consideration to the Target Company's identifiable assets and liabilities acquired is made as if the Acquisition had taken place on 30 June 2018. The pro forma allocation of purchase consideration to the identifiable assets and liabilities is determined with reference to the valuation results (which is for the purchase price allocation for the pro forma accounting purpose) of the Target Company as at 30 June 2018 issued by Roma.

The pro forma adjustment to the identifiable assets and liabilities arising from Acquisition is calculated as follows:

| | *Notes* | **Allocation of the adjusted consideration** *RMB'000* | **Previous carrying amount** *RMB'000* |
|---|---|---|---|
| Property, plant and equipment | *i* | 2,731 | 2,551 |
| Deferred tax assets | | 15,865 | 18,891 |
| Loan receivables | *ii* | 535,658 | 523,556 |
| Prepayments, deposits and other receivables | | 547 | 547 |
| Due from related companies | | 251 | 251 |
| Tax prepaid | | 3,613 | 3,613 |
| Cash and cash equivalents | | 10,216 | 10,216 |
| Accruals and other payables | | (13,721) | (13,721) |
| Due to a related company | | (838) | (838) |
| Bank and other borrowings | | (150,000) | (150,000) |
| | | 404,322 | 395,066 |
| Non-controlling interests as at 30 June 2018 | | 181,945 | |
| Net identifiable assets and liabilities attributable to equity interest acquired by the Group | | 222,377 | |

(i) The Directors have determined the pro forma fair values of property, plant and equipment of the Target Company as at 30 June 2018 with reference to a valuation report issued by Roma.

The pro forma fair value of property, plant and equipment was established by market approach and cost approach (when market approach is not applicable) to value the property, plant and equipment. The market approach considers prices recently paid for similar assets with adjustment made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets with the adjustment for accrued depreciation arising from condition, utility, age, wear and tear or obsolescence present, taking into consideration past and present maintenance policy and rebuilding history.

(ii) The Directors have determined the pro forma fair values of loan receivables of the Target Company as at 30 June 2018 with reference to a valuation report issued by Roma.

The pro forma fair value of loan receivables is estimated with the current overdue amount and expected overdue amount of the loan receivables and respective recovery rates. The recovery rate of the loan receivables is estimated with reference to on the historical recovery rate of the Target

Company. Deferred tax assets relating to the pro forma fair value adjustment of loan receivables amounted to approximately RMB3,026,000 and is calculated at the income tax rate of the Target Company of 25%.

For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the pro forma fair values of the identifiable assets and liabilities of the Target Company as at 30 June 2018 were used to determine the pro forma gain on bargain purchase arising from the Acquisition. Upon completion of the Acquisition, the Directors will engage an independent qualified professional valuer to carry out the valuation of the net identifiable assets and liabilities for the purchase price allocation as at the date of completion of the Acquisition, based on facts and circumstances existing as at that date. The valuation of the net identifiable assets and liabilities may be significantly different from the assumed valuation used for the purpose of preparation of the Unaudited Pro Forma Financial Information.

(f) Non-controlling interests of approximately RMB181,945,000 is calculated as 45% of the pro forma fair value of Target Group's identifiable assets and liabilities.

(g) For the purpose of preparation of the Unaudited Pro Forma Financial Information, the pro forma gain on bargain purchase of approximately RMB22,519,000 is recognised in the consolidated statement of changes in equity.

Upon the completion of the Acquisition, the Company will adopt consistent accounting policies and principal assumptions. The Company's auditor will review in accordance with Hong Kong Standards on Auditing, the appropriateness of the key assumptions used by the Directors, to estimate the recoverable amount of the investment in a subsidiary based on the facts and circumstance at the end of each reporting period, to ensure the impairment assessment performed by the Directors is in compliance with HKAS 36 and is consistently applied.

3. The adjustment reflects the elimination of the pro forma cost of the Group's acquisition in the Target Company of approximately RMB199,858,000.

4. The adjustment represents the estimated direct expenses of audit, valuation and other professional services related to the transaction (including fees to legal advisers, financial adviser, printer and other expenses) for the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, which was estimated to be approximately RMB2,648,000 and charged to consolidated profit or loss. The adjustment is not expected to have a continuing effect on the Enlarged Group.

5. Save as aforesaid, no other adjustments have been made to reflect any trading result or other transactions of the Enlarged Group entered into subsequent to 30 June 2018. Unless otherwise stated, the adjustments above are not expected to have a continuing effect on the Enlarged Group.

6. Deficit of approximately RMB17,939,000 shown in the Unaudited Pro Forma Financial Information is for illustrative purpose only. The loan receivables of approximately RMB130,417,000 as at 30 June 2018 were settled in September 2018, the Group is considered to have sufficient cash to finance the acquisition.

7. As disclosed in Note 2(e)(ii), the loan receivables is measured on initial recognition at their acquisition fair value in accordance with HKFRS 3. The pro forma fair value of loan receivables is estimated as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date and corroborated by observable market data in accordance with HKFRS 13 "Fair Value Measurement". No loss allowance is recognised as part of the initial measurement of loan receivables that are acquired in a business combination.

Subsequent accounting for the loan receivables acquired in a business combination after their initial recognition is in the scope of HKFRS 9 (2014) "Financial Instruments" ("HKFRS 9 (2014)"). The allowance for expected credit losses ("ECLs") shall be recognised on loan receivables based on assumptions about risk of default and ECLs rates such as the available customers' historical data, existing market conditions including forward looking estimates in accordance with HKFRS 9 (2014). Based on the latest information, the Directors have assessed whether these is any ECLSs on the loan receivables as at 30 June 2018 in accordance with HKFRS 9 (2014). The pro forma fair value of loan receivables of the Target Company is approximately RMB535,658,000. The ECLs of loan receivables has been estimated using a calculation model using observable data as set out in Appendix II in this Circular. The pro forma fair value of loan receivables has therefore been reduced to its net carrying amount through recognition of allowance for ECLs of approximately RMB12,102,000 in the unaudited pro forma consolidated statements of assets and liabilities of the Enlarged Group. Deferred tax assets relating to the ECLs adjustment of loan receivables amounted to approximately RMB3,026,000 and is calculated at the income tax rate of the Target Company of 25%. As at 30 June 2018, the net carrying amount of loan receivables is approximately RMB523,556,000, details of which are set out in Note 15 to the Appendix II in this Circular.

## C. INDEPENDENT REPORTING ACCOUNTANT ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from the reporting accountant, Moore Stephens CPA Limited, Certified Public Accountant, Hong Kong, on the unaudited pro forma financial information of the Enlarged Group as set out in this appendix and prepared, for inclusion in this circular.*

MOORE STEPHENS

Moore Stephens CPA Limited
801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong
T +852 2375 3180
F +852 2375 3828
www.moorestephens.com.hk
大華馬施雲
會計師事務所有限公司

The Directors
Wealthy Way Group Limited

**INDEPENDENT REPORTING ACCOUNTANT ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Wealthy Way Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2018 (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-9 of the circular issued by the Company dated 21 November 2018 (the "Circular"), in connection with the proposed acquisition of approximately 55% of the issued share capital of 浩森小額貸款股份有限公司 (for transliteration purpose, Shenzhen Haosen Credit Joint Stock Company Limited) (the "Target Company") (the "Acquisition"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-9.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's assets and liabilities as at 30 June 2018 as if the Acquisition had been taken place on 30 June 2018. As part of this process, information about the Group's assets and liabilities has been extracted by the Directors from the Group's unaudited interim financial statements as included in the interim report for the six months ended 30 June 2018 dated 29 August 2018, on which no review report has been published.

Information about the Target Company's financial position has been extracted by the Directors from financial information of the Target Company as at 30 June 2018, on which an accountant's report has been published in Appendix II to this Circular.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 June 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the Group, the Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
**Moore Stephens CPA Limited**
*Certified Public Accountants*
**Hung, Wan Fong Joanne**
Practising Certificate Number: P05419
Hong Kong

21 November 2018

*The following is the text of a letter and valuation report, prepared for the purpose of incorporation in this circular received from Roma Appraisals Limited, an independent valuer, in connection with its valuation as at 30 June 2018 of 47% equity interests in the business enterprise of the Target Company.*

22/F, China Overseas Building,
139 Hennessy Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@romagroup.com
http://www.romagroup.com

21 November 2018

**Wealthy Way Group Limited**
Room 3402, 34/F
China Resources Building,
26 Harbour Road,
Wanchai, Hong Kong

Dear Sir/Madam,

**Re: Business Valuation of 47% Equity Interests in 深圳市浩森小額貸款股份有限公司 (Shenzhen Haosen Credit Joint Stock (Limited) Company)**

In accordance with the instructions from Wealthy Way Group Limited (hereinafter referred to as the "Company"), we have conducted a business valuation of 47% equity interests in 深圳市浩森小額貸款股份有限公司 (Shenzhen Haosen Credit Joint Stock (Limited) Company) (hereinafter referred to as the "Target 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 our valuation as at 30 June 2018 (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 Target Company, basis of valuation, investigation, valuation methodology, major assumptions, information reviewed, limiting conditions, remarks and presents our opinion of value.

## 1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. The Company is a public company listed on the Main Board of the Stock Exchange of Hong Kong Limited. In addition, Roma Appraisals Limited (hereinafter referred to as "Roma Appraisals") acknowledges that this report will be made available to the Company for public documentation purpose only.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents 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.

## 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 Target Company and/or their representative(s) (together referred to as the "Management").

In preparing this report, we have had discussions with the Management in relation to the development, operations and other relevant information of the Target Company. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Target Company as provided by the Management to a considerable extent.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or a more extensive examination might disclose.

## 3. ECONOMIC OVERVIEW

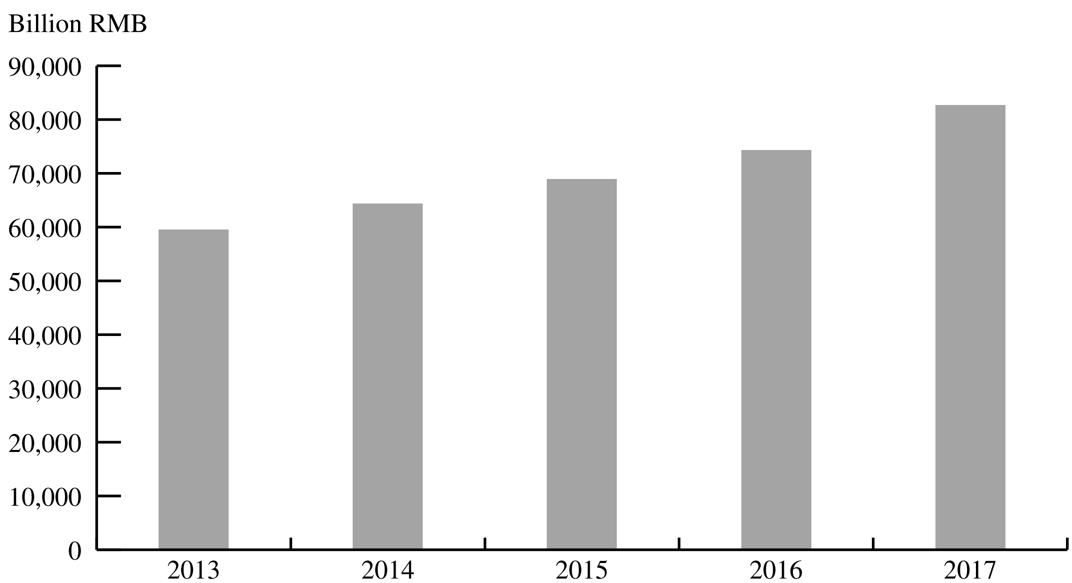
### 3.1 Overview of the Economy in China

According to the National Bureau of Statistics of China, the nominal gross domestic product ("GDP") of China in 2017 was RMB82,712 billion, a year over year nominal increase of 11.2% comparing to 2016. China was the second largest economy in the world, in terms of nominal GDP measured by the International Monetary Fund ("IMF") in 2017. Despite the global financial crisis in late 2008, the Chinese economy continued to be supported by the Chinese government through spending in infrastructure and real estates.

Throughout 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports. China's economy rebounded quickly in 2010, outperforming all other major economies with robust GDP growth and the economy remained in strong growth since 2011.

Over the past five years from 2013 to 2017, compound annual growth rate of China's nominal GDP was 8.6%. An upward trend of China's nominal GDP was observed from 2013 to 2017. Figure 1 illustrates the nominal GDP of China from 2013 to 2017.

**Figure 1 — China's Nominal GDP from 2013 to 2017**

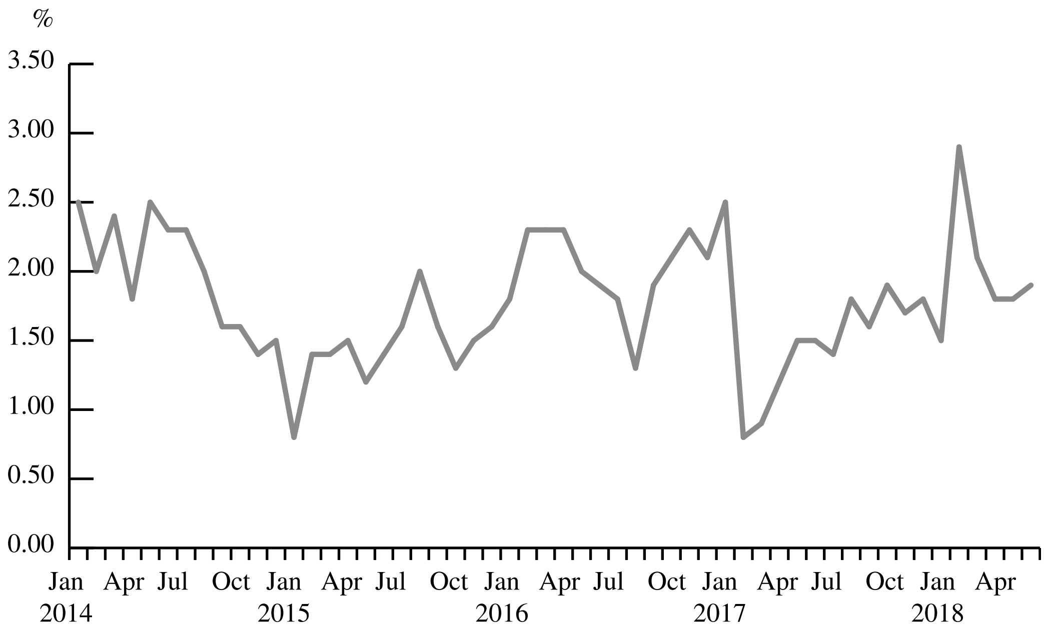



*Source: National Bureau of Statistics of China*

**3.2 Inflation in China**

Tackling inflation problem has long been the top priority of the Chinese government as high prices are considered as one of the causes of social unrest. For such a fast-growing economy, the middle-class' demand for food and commodities has been rising continuously. Inflation in China has been driven mainly by food prices, which have been stayed high in 2011. According to the National Bureau of Statistics of China, the consumer price index ("CPI") demonstrated an uptrend in the first half of 2011. Thanks to the government's policies in suppressing commodity prices, the year-over-year change in CPI dropped to 1.5% in December 2014. During first half of 2015, the year-over-year change in CPI maintained at around 0.8% to 1.5%, and fluctuated around 1.3% to 2.0% in second half of 2015. In 2016, the year-over-year change in CPI dropped from 2.3% in January to 1.3% in August, but rose in the later months and arrived at 2.1% in December. In 2017, the year-over-year change in CPI dropped from 2.5% in January to 0.8% in February and increased to 1.8% in December. In 2018, the year-over-year change in CPI rose to 2.9% in February then dropped to 1.8% in May Figure 2 shows the year-over-year change in CPI of China from January 2014 to June 2018.

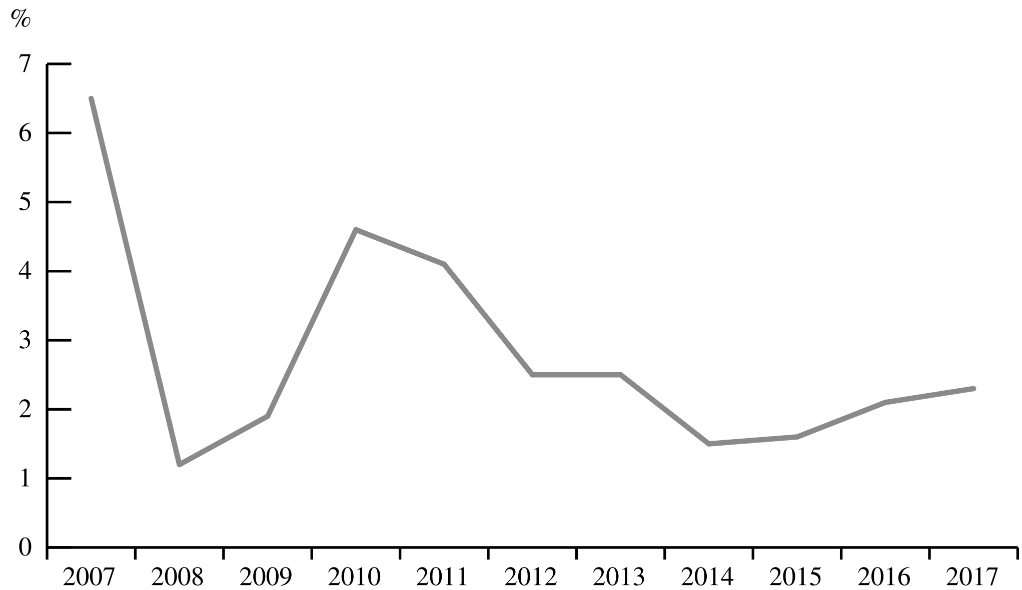
**Figure 2 — Year-over-year Change in China's CPI from January 2014 to June 2018**




*Source: Bloomberg*

China's inflation rate was volatile during the past decade. According to the IMF, the inflation rate in China increased from 2.8% in 2006 to 6.5% in 2007, and then dropped to 1.2% and 1.9% in 2008 and 2009 respectively. The inflation rate increased to 4.6% in 2010 and maintained at 4.1% in 2011. The inflation rate dropped again to 2.5% in 2012 and 2013, and further to 1.5% in 2014. It started to climb then in the recent three years from 1.6% in 2015 to 1.8% in 2017. According to IMF's forecast, the long-term inflation rate of China is expected to be around 3.0%. Figure 3 shows the historical trend of China's inflation rate from 2007 to 2017.

**Figure 3 — China's Inflation Rate from 2007 to 2017**




*Source: International Monetary Fund*

## 4. INDUSTRY OVERVIEW

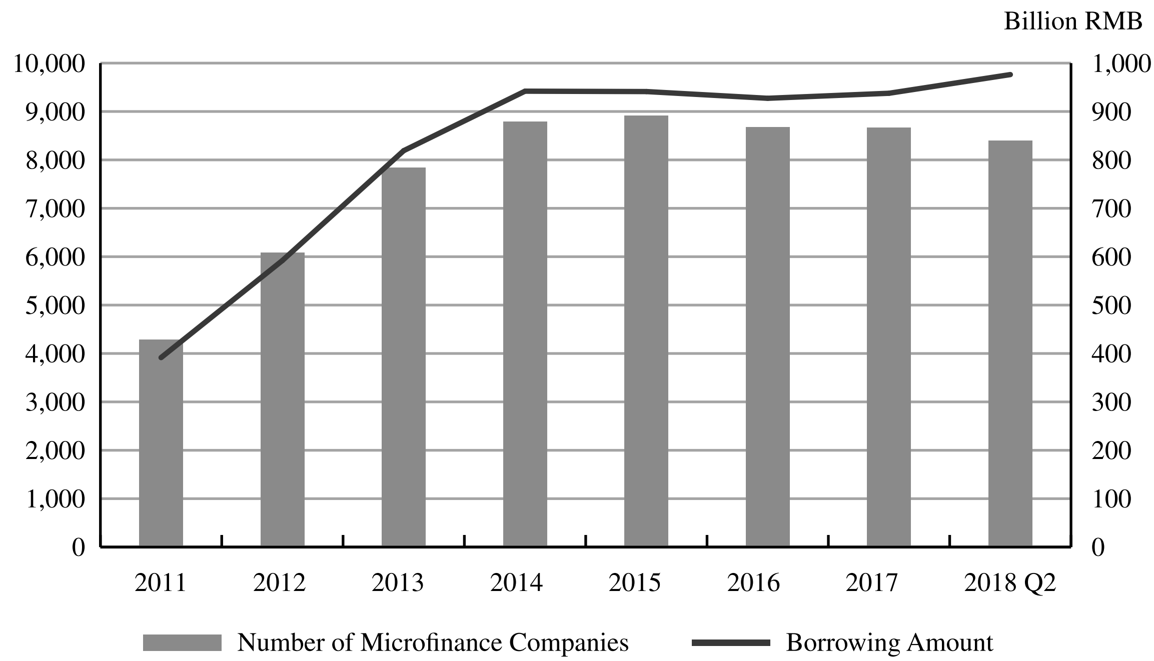
### 4.1 Microfinancing Industry in China

The prolonged growing economy in China raises the demand for borrowing for small and medium-sized enterprises ("SMEs") and individuals for business expansion and personal consumption. However, due to the small borrowing amount, lack of sufficient collaterals and higher default risk, banks are reluctant to lend to SMEs and individuals. These loan applications may also be subject to long processing time. The existence of microfinance companies could help these applicants for borrowing loans as they do not require large enterprises as a guarantor, the application time of loan was also shorter compared with borrowing from bank.

The China Banking Regulatory Commission and the People's Bank of China jointly promulgated the Guiding Opinions of China Banking Regulatory Commission and the People's Bank of China on the Pilot Operation of Small-sum Loan Companies (中國銀行業監督管理委員會、中國人民銀行關於小額貸款公司試點的指導意見) in May 2008, which sets out the fundamental requirements for establishing, registering and operating microfinance companies in China. Apart from the support in financial institutions in China, the Chinese government showed its support through issuing another opinion, namely Guiding Opinions on Providing Financial Support for the Adjustment, Transformation and Upgrade of the Economic Structure (關於金融支持經濟結構調整和轉型升級的指導意見) (the "New Opinion") in July 2013 by the State Council of the People's Republic of China. The New Opinion also provided guidance on the diversification of customer segments in microfinance industry.

Due to the strong demand and government's support in the microfinance industry, the number of microfinance companies increases from 4,282 in 2011 to 8,910 in 2015, then lowered to 8,394 in second quarter of 2018. The borrowing amount grows simultaneously from RMB391.5 billion in 2011 to RMB976.3 billion in second quarter of 2018. Figure 4 shows the number of microfinance companies and borrowing amount of microfinance companies in China respectively.

**Figure 4 — Number of Microfinance Companies and Borrowing Amount of Microfinance Companies in China**




*Source: The People's Bank of China*

## 5. OVERVIEW OF THE TARGET COMPANY

The Target Company is a company established in China with limited liability on 26 May 2009. It is a financial institution primarily engaged in the provision of small loans to its customers. The Target Company is under the supervision of, and granted a small loan company license by 深圳市人民政府金融發展服務辦公室 (Shenzhen Municipal Government Financial Development Services Office).

## 6. BASIS OF VALUATION

Our valuation is conducted on market value basis defined as follows. According to the International Valuation Standards established by the International Valuation Standards Council in 2017, 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. INVESTIGATION

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Target Company. In addition, we have made relevant inquiries and obtained further information and statistical figures regarding the economy in China as we considered necessary for the purpose of the valuation.

We have had discussions with the Management in relation to the development, operations and other relevant information of the Target Company. We have also consulted other sources of financial and business information. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Target Company as provided by the Management to a considerable extent.

The valuation of the Target Company requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The business nature and prospect of the Target Company;
- The financial information of the Target Company
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- Relevant licenses and agreements;
- The business risks of the Target Company such as the ability in maintaining competent technical and professional personnel; and
- Investment returns of entities engaged in similar lines of business.

## 8. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the market value of the Target Company, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

### 8.1 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 value 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.

### 8.2 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 value using a discount rate appropriate for the risks associated with realizing those benefits.

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

### 8.3 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/group refers to the market values of various assets and liabilities on the statement of financial position of the business entity/group 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.

### 8.4 Business Valuation

In the process of valuing the Target Company, we have taken into account of the operation related to the nature of the microfinancing industry it is participating.

The valuation under Income-Based approach could be largely influenced by any inappropriate assumptions made, therefore the Income-Based Approach was not adopted. The Asset-Based Approach was also not adopted because it could not capture the future earning potential of the Target Company and therefore it could not reflect the market value of the Target Company. Market value arrived from the Market-Based Approach was considered to reflect the market expectations over the corresponding industry since the price multiples of the comparable companies were arrived from market consensus. We have therefore considered the adoption of the Market-Based Approach in arriving at the market value of the Target Company.

There are two valuation methods under the Market-Based Approach, namely the guideline public company method and guideline transaction method. Since the Target Company is not a public company, the use of guideline transaction method captures more private company transactions as opposed to guideline public company method, we have therefore adopted the guideline transaction method in the valuation.

By adopting the guideline transaction method under the Market-Based Approach, we have to determine the appropriate valuation multiples of comparable company, in which we have considered price-to-sales ("P/S"), price-to-earnings ("P/E"), price-to-net asset value ("P/NAV") and enterprise value-to-earnings before interest and tax ("EV/EBIT").

P/S multiple was not adopted since it could not capture differences in cost structure between the comparable companies and the Target Company. P/E and EV/EBIT multiples were not applicable since the Target Company's earnings may not be stable and normalized for the period prior to the Date of Valuation as the Target Company entered into capital increase agreement in May 2018. Moreover, it is a common market practice to adopt the P/NAV Multiples to appraise companies with principal business in financial industry. The net asset value of the microfinancing companies is critical for a company to carry out the money lending business as the NAV is instrumental to the size of loan portfolio that can be provided by a money lending company, using P/NAV ratio can better reflect its financial performance and thus its market value. Therefore, we adopted P/NAV multiple to estimate the market value.

To calculate the consideration-to-net asset value multiple, we have shortlisted comparable transactions in which the target companies involved are microfinancing companies similar to the Target Company. In particular, the comparable transactions were selected mainly with reference to the following selection criteria:

- The underlying assets of the transactions involve in microfinancing business in China;
- The transactions were completed within three years prior to the Date of the Valuation. The price data may not be representative for the transactions completed over 3 years prior to the Date of Valuation, while the number of transactions may not be sufficient to arrive at a conclusive valuation multiple for transactions

completed in less than 3 years prior to the Date of Valuation. Hence, we have adopted the selection criteria of transactions completed within 3 years. This selection criterion was considered to be fair and representative; and

- There should be pertinent information regarding transaction consideration and net asset value.

We were of the view that the list of comparable transactions, which fulfilled the selection criteria, was fair and reasonable. The list of comparable transactions is representative and exhaustive. We have reviewed the basis of consideration of the comparable transactions and noted that the consideration for a number of comparable transactions were based on the net asset value ("NAV") of the target company from its financial statements.

The consideration of the target company marked with * in the following comparable transaction list adopted in the valuation was the consideration that its basis of determination was referenced to the NAV of the target company. It illustrated that market players have considered P/NAV multiple in their process of determining consideration for acquisition of microfinancing companies, hence it is a common market practice to adopt P/NAV multiple for valuing companies in microfinancing industry.

The details of the comparable transactions and valuation metrics are as illustrated in table A and table B respectively. All the information of the comparable transactions was extracted from hkexnews.hk and cninfo.com.cn, the major market information providers in Hong Kong and China stock market respectively. We considered the sources were credible and reliable.

**Table A — Comparable Transactions**

| Completion Date | Acquirer | Target Company | Equity Interest Acquired | Consideration *(RMB)* | Net Asset Value *(RMB)* |
|---|---|---|---|---|---|
| 1 July 2015 | 蘇州匯方同達信息科技有限公司 (Suzhou Huifang Tongda Information Technology Co., Ltd.#) | 蘇州市吳中區東山農村小額貸款有限公司 (Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.#) | 40% | 126,414,800* | 316,037,000 |
| 1 July 2015 | 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited#) | 德清金匯小額貸款有限公司 (Deqing Jin Hui Micro-finance Co., Ltd#) | 97% | 256,738,000* | 262,300,000 |
| 25 September 2015 | 金發科技股份有限公司 (Kingfa Sci.& Tech. Co., Ltd.#) | 廣州蘿崗金發小額貸款股份有限公司 (Guangzhou Luogang Jinfa Microfinance Co., Ltd.#) | 14% | 28,374,300* | 200,566,836 |
| 24 November 2015 | 深圳浩寧達儀錶股份有限公司 (Shenzhen Haoningda Meter Co., Ltd.#) | 深圳聯合金融小額貸款股份有限公司 (Shenzhen United Microfinance Co., Ltd.#) | 51% | 165,750,000 | 174,283,526 |
| 24 February 2016 | 山東天業恒基股份有限公司 (Shandong Tyan Home Co.,Ltd.#) | 濟南市高新區天業小額貸款股份有限公司 (Jinan High-tech Zone Tianye Microfinance Co., Ltd.#) | 90% | 104,500,000 | 113,520,000 |

| Completion Date | Acquirer | Target Company | Equity Interest Acquired | Consideration *(RMB)* | Net Asset Value *(RMB)* |
|---|---|---|---|---|---|
| 17 November 2016 | 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited#) | 杭州市高新區 (濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd#) | 60% | 133,680,000 | 212,390,000 |
| 31 May 2017 | Sunny Group Company Limited | 餘姚市舜宇匯通小額貸款股份有限公司 (Yuyao City Sunny Huitong Microcredit Co., Ltd.#) | 73% | 145,055,000 | 202,816,000 |
| 25 December 2017 | 新疆亞中物流商務網路有限責任公司 (Xinjiang Yazhong Logistics Business Network Co.,Ltd.#) | 烏魯木齊市匯信小額貸款有限責任公司 (Urumqi Huixin Microfinance Co., Ltd.#) | 10% | 48,386,400* | 483,864,000 |
| 22 September 2017 | 泉州匯鑫小額貸款股份有限公司 (Quanzhou Huixin Micro-credit Co., Ltd.#) | 晉江市百應小額貸款有限責任公司 (Jinjiang Baiying Microfinance Co., Ltd.#) | 48% | 172,500,000* | 319,799,742 |
| 20 December 2017 | 重慶建工集團股份有限公司 (Chongqing Construction Engineering Group Co.,Ltd.#) | 重慶兩江新區信和產融小額貸款有限公司 (Chongqing Liangjiang New District Xinhe Microfinance., Ltd.#) | 75% | 239,057,686 | 320,882,200 |
| 8 December 2017 | 大眾交通(集團)股份有限公司 (Dazhong Transportation (Group) Co., Ltd.#) | 上海閔行大眾小額貸款股份有限公司 (Shanghai Minhang Dazhong Microfinance Co., Ltd.#) | 50% | 102,500,000 | 204,007,100 |
| During 2017 | 蘇州匯方同達信息科技有限公司 (Suzhou Huifang Tongda Information Technology Co., Ltd.#) | 蘇州市吳中區東山農村小額貸款有限公司 (Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.#) | 20% | 60,000,000* | 324,706,000 |
| 19 April 2018 | 深圳市賽格集團有限公司 (Shenzhen Seg Co.,Ltd.#) | 深圳市賽格小額貸款有限公司 (Shenzhen SEG Microfinance Co., Ltd.#) | 62% | 126,699,000 | 193,090,000 |

# *For identification purposes only*

## Table B — Valuation Metrics

| Target Company | Consideration *(RMB)* | Equity Interest | Adjustment for Control Premium[1] | 100% Consideration (on Controlling Basis) *(RMB)* | Net Asset Value *(RMB)* | Consideration per Net Asset Value |
|---|---|---|---|---|---|---|
| 蘇州市吳中區東山農村小額貸款有限公司 (Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.#) | 126,414,800 | 40% | 0%[2] | 316,037,000 | 316,037,000 | 1.00 |
| 德清金匯小額貸款有限公司 (Deqing Jin Hui Micro-finance Co., Ltd#) | 256,738,000 | 97% | 0% | 264,870,040 | 262,300,000 | 1.01 |
| 廣州蘿崗金發小額貸款股份有限公司 (Guangzhou Luogang Jinfa Microfinance Co., Ltd.#) | 28,374,300 | 14% | 0%[3] | 210,180,000 | 200,566,836 | 1.05 |
| 深圳聯合金融小額貸款股份有限公司 (Shenzhen United Microfinance Co., Ltd.#) | 165,750,000 | 51% | 0% | 325,000,000 | 174,283,526 | 1.86+ |

| Target Company | Consideration (RMB) | Equity Interest | Adjustment for Control Premium[1] | 100% Consideration (on Controlling Basis) (RMB) | Net Asset Value (RMB) | Consideration per Net Asset Value |
|---|---|---|---|---|---|---|
| 濟南市高新區天業小額貸款股份有限公司 (Jinan High-tech Zone Tianye Microfinance Co., Ltd.#) | 104,500,000 | 90% | 0% | 116,111,111 | 113,520,000 | 1.02 |
| 杭州市高新區(濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd#) | 133,680,000 | 60% | 0% | 222,800,000 | 212,390,000 | 1.05 |
| 餘姚市舜宇匯通小額貸款股份有限公司 (Yuyao City Sunny Huitong Microcredit Co., Ltd.) | 145,055,000 | 73% | 0% | 199,993,106 | 202,816,000 | 0.99 |
| 烏魯木齊市匯信小額貸款有限責任公司 (Urumqi Huixin Microfinance Co., Ltd.#) | 48,386,400 | 10% | 26% | 609,668,640 | 483,864,000 | 1.26 |
| 晉江市百應小額貸款有限責任公司 (Jinjiang Baiying Microfinance Co., Ltd.#) | 172,500,000 | 48% | 0%[4] | 360,125,261 | 319,799,742 | 1.13 |
| 重慶兩江新區信和產融小額貸款有限公司 (Chongqing Liangjiang New District Xinhe Microfinance., Ltd.#) | 239,057,686 | 75% | 0% | 320,882,800 | 320,882,200 | 1.00 |
| 上海閔行大眾小額貸款股份有限公司 (Shanghai Minhang Dazhong Microfinance Co., Ltd.#) | 102,500,000 | 50% | 0% | 205,000,000 | 204,007,100 | 1.00 |
| 蘇州市吳中區東山農村小額貸款有限公司 (Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.#) | 60,000,000 | 20% | 0%[3] | 300,000,000 | 324,706,000 | 0.92[+] |
| 深圳市賽格小額貸款有限公司 (Shenzhen SEG Microfinance Co., Ltd. #) | 126,699,000 | 62% | 0% | 204,353,226 | 193,090,000 | 1.06 |
| | | | | | **Average exclude maximum and minimum:** | **1.05** |

# *For identification purposes only*

*Notes:*

1 Given that consideration of comparable transactions are not the exact match to the net asset value of the target companies, it may follow that the acquirer might have considered adjusting factors on net asset value in arriving at the consideration for acquisition, potentially including but not limited to the discount on lack of marketability and control premium altogether. Transactions have not disclosed that what factors were being considered, but it could not be concluded that the acquirer did not consider the control premium in determining the consideration for the transaction.

As we are considering the value of the Target Company from the perspective of controlling interest, the median control premium for the overall transaction of 26.00% has been applied to the consideration of the transactions that the buyer acquired non-controlling interest in the target company to reflect the higher marketability of a controlling interest compared to a minority interest.

For comparable transactions with equal to or more than 50% equity interest in the target company, consideration of the transaction would not be adjusted as the transactions involved the transfer of controlling interest in the target companies. For comparable transactions with less than 50% equity interest in the target company, we have assessed the equity shareholding structure for the comparable transactions from publicly available sources.

If the acquirer would obtain a controlling stake in the target company after the completion of transaction, no adjustment on control premium was applied to the consideration of the transaction as the consideration of transactions were assumed to be implied with control premium. Otherwise, the consideration of the transaction would be adjusted by multiplying (1+control premium of 26%). After our assessment, only the consideration for transaction of 烏魯木齊市匯信小額貸款有限責任公司 (Urumqi Huixin Microfinance Co., Ltd.#) has been adjusted with control premium to reflect a consideration with controlling stake despite the equity interest involved in this transaction is only 10%.

The control premium was referenced to the Mergerstat Control Premium Study (4th Quarter 2017) (the "Study") published by FactSet Mergerstat, LLC., an independent information provider for merger and acquisition transaction data. Founded in 1963, Factset Mergerstat LLC. engages in publishing various merger and acquisition publications which were widely adopted in business valuations. Hence, we are of the view that the Study was credible and reliable.

We have searched for the microfinancing industry relevant control premium, and found that the most relevant is for the banking and credit agencies industry, with a median of 33.2%. Most of the transactions as disclosed in the Study for the banking and credit agencies industry were engaged in traditional banking business. In view of the difference in nature between banking and microfinancing industry, we considered the banking and credit agencies industry control premium may not be particularly suitable to the microfinancing industry. As such, we have adopted the overall median of control premium in the valuation to represent the general level of premium considered.

2 Pursuant to the purchase agreement, the acquirer would take up the majority of the board seats of the target company. Therefore, the consideration was on controlling basis and no adjustment was required.

3 The acquirer was a controlling shareholder of the target company before the acquisition, no adjustment on controlling interest was required.

4 The remaining 52.1% equity interests in the target company were owned by six independent third parties. The acquirer is the sole majority shareholder, no adjustment for control premium was required.

+ *The maximum and minimum consideration-to-net asset value multiples were excluded in the valuation.*

Since the Target Company and all the target companies involved in the list of comparable transactions are private companies, the discount of lack of marketability was not applicable to the consideration of the comparable transactions.

We have applied the average exclude maximum and minimum consideration-to-net asset value multiple of the comparable transactions of 1.05 to the net asset value of the Target Company of RMB395,066,000 to arrive at the market value of the Target Company as at the Date of Valuation. Compared to average consideration-to-net asset value multiple, average exclude maximum and minimum consideration-to-net asset value multiple can reduce the impact of the largest and smallest data on the valuation result. We have therefore considered the adoption of average exclude maximum and minimum over simple average of consideration-to-net asset value multiple.

### 8.5 Calculation Details

The calculation details of the market value of the Target Company were illustrated as follows:

| | | |
|---|---|---|
| Net Asset Value of the Target Company *(RMB)* | | 395,066,000 |
| Average Exclude Maximum and Minimum Consideration-to-Net Asset Value Multiple | × | 1.05 |
| 100% Market Value *(RMB)* | | 415,356,045 |
| 47% Market Value *(RMB)* | | 195,217,341 |
| **Rounded Value *(RMB)*** | | **195,000,000** |

*Note:* The totals may not sum due to rounding.

## 9. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- Upon completion of the transaction, the Company will indirectly own an aggregate of 55% equity interest in the Target Company on controlling basis;
- It was assumed that the consideration of comparable transactions with transfer of controlling stake were implied with control premium;
- The valuation was mainly based on the management account of the Target Company as at 30 June 2018 since an audited financial accounts as at 30 June 2018 was not available;
- The Target Company will be operated and developed as planned by the Management;
- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry;
- There will be sufficient supply of technical staff in the industry in which the Target Company operates, and the Target Company 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 Target Company 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 Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company;

- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing; and

- Saved for those liabilities reported in the financial statements of the Target Company, it is not subjected to any liabilities, interest-bearing loans and encumbrances that would impair its value as at the Date of Valuation.

## 10. INFORMATION REVIEWED

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

- Management account of the Target Company for the six months ended 30 June 2018;

- Audited financial statements of the Target Company for year 2015–2017;

- Relevant licenses of the Target Company;

- General descriptions in relation to the Target Company; and

- Economic outlook in China.

We have discussed the details with the Management on 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 of value.

## 11. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events 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 financial information of the Target Company 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 information provided by the Management to a considerable extent in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. The information has not been audited or compiled by 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 Target Company 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 Target Company.

We have not investigated the title to or any legal liabilities of the Target Company, and have assumed no responsibility for the title to the Target Company 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 Roma Appraisals. 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 Roma Appraisals 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 Roma Appraisals.

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.

## 12. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Company, their associated companies or the values reported herein.

## 13. OPINION OF VALUE

Based on the investigation stated above and on the valuation method employed, the market value of 47% equity interest in the Target Company as at the Date of Valuation, in our opinion, was reasonably stated as **RMB195,000,000 (RENMINBI ONE HUNDRED AND NINETY FIVE MILLION ONLY)**.

Yours faithfully,
For and on behalf of
**Roma Appraisals Limited**

## 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 Company. 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. SHARE CAPITAL

The authorised share capital of the Company is HK$200,000,000 divided into 20,000,000,000 Shares. As at the Latest Practicable Date, the Company had issued 144,000,000 Shares. All the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital.

## 3. DISCLOSURE OF INTERESTS

### (a) Directors' and chief executives' interests and short positions in Shares, underlying shares and debentures

As at the Latest Practicable Date, the interests and short positions of the Directors 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 or 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 maintained by the Company referred to therein, or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

**(i) *Interests in the Shares***

| Name of Director | Capacity/Nature of interest | Number of Shares | Number of share options | Total *(Note 1)* | Percentage of shareholding |
|---|---|---|---|---|---|
| Mr. Lo | Interest of controlled corporation | 108,000,000 *(Note 2)* | — | 108,000,000 (L) | 75% |
| Mr. Xie | Beneficial owner | — | 360,000 *(Note 3)* | 360,000 (L) | 0.25% |

*Notes:*

1. The letter "L" denotes the person's long position in the Shares.

2. Wealthy Rise directly holds 108,000,000 Shares. As Wealthy Rise is beneficially owned as to 100% by Mr. Lo, Mr. Lo is deemed to be interested in all the Shares held by Wealthy Rise under the SFO.

3. Share options granted to Mr. Xie pursuant to a share option scheme of the Company.

**(ii)** ***Interests in associated corporation of the Company***

| Name of Director | Name of associated corporation | Capacity/Nature of interest | Number of share *(Note)* | Percentage of shareholding |
|---|---|---|---|---|
| Mr. Lo | Wealthy Rise | Beneficial owner | 1 (L) | 100% |

*Note:* The letter "L" denotes the person's long position in the share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the Share, 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 or 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 maintained by the Company referred to therein, or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

**(b) Substantial Shareholders' and other persons' interests in Shares and underlying shares**

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company as disclosed in the above) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, 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 meetings of any other member of the Group or had any option in respect of such capital as at the Latest Practicable Date:

| Name | Capacity/Nature of interest | Number of Shares *(Note 1)* | Percentage of shareholding |
|---|---|---|---|
| Wealthy Rise | Beneficial owner | 108,000,000 (L) | 75% |
| Ms. Lin Yihong *(Note 2)* | Interest of spouse | 108,000,000 (L) | 75% |

*Notes:*

1. The letter "L" denotes the person/entity's long positions in the Shares.

2. Ms. Lin Yihong is the spouse of Mr. Lo. By virtue of the SFO, Ms. Lin Yihong is deemed to be interested in the same number of Shares in which Mr. Lo is deemed to be interested.

Save as disclosed in this circular, so far as was known to the Directors or chief executives of the Company, there is no other person (other than the Directors or chief executives of the Company as disclosed in the above) who had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, 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 meetings of any other member of the Group or had any option in respect of such capital as at the Latest Practicable Date.

## 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 5. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

## 6. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular, the following agreements, being contracts not entered into in the ordinary course of business, have been entered into by members of the Enlarged Group and are or may be material:

(a) the deed of indemnity dated 19 June 2017 executed by Wealthy Rise and Mr. Lo in favour of the Company in relation to taxation and other liabilities, details of which are set out in appendix IV to the Prospectus;

(b) the deed of non-competition dated 19 June 2017 executed by Wealthy Rise and Mr. Lo in favour of the Company in relation to certain non-competition undertakings, details of which are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus;

(c) the public offer underwriting agreement dated 27 June 2017 entered into, among others, Ample Capital Limited as sponsor, Ample Orient Capital Limited as the sole global coordinator, the Company, its executive directors, controlling shareholders and the public offer underwriters, details of which are set out in the section headed "Underwriting" of the Prospectus;

(d) the placing underwriting agreement dated 10 July 2017 entered into, among others, Ample Capital Limited as sponsor, Ample Orient Capital Limited as the sole global coordinator, the Company, its executive directors, controlling shareholders and the placing underwriters, details of which are set out in the section headed "Underwriting" of the Prospectus; and

(e) the capital increase agreement dated 9 May 2018 entered into between the Purchaser, the Vendor, Party A and Party B in relation to increase in registered share capital of the Target Company from RMB300,000,000 to RMB400,000,000.

## 7. COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group or have or may have any other conflicts of interest with the Enlarged Group pursuant to the Listing Rules.

## 8. INTEREST OF DIRECTORS OR PROPOSED DIRECTORS OR EXPERTS IN ASSETS ACQUIRED OR DISPOSED OF BY OR LEASED TO ANY MEMBER OF THE ENLARGED GROUP

Since the date to which the latest published audited accounts of the Company were made up until the Latest Practicable Date, none of the Directors or proposed Directors or experts (as listed out in paragraph 10 below) had or had proposed to acquire or dispose or lease any interest, direct or indirect, in any assets to any member of the Enlarged Group.

## 9. CONTRACTS OR ARRANGEMENTS WHICH DIRECTORS ARE MATERIALLY INTERESTED AND ARE SIGNIFICANT IN RELATION TO THE BUSINESS OF THE ENLARGED GROUP

As at the Latest Practicable Date, there were no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Enlarged Group.

## 10. EXPERTS AND CONSENT

The following are the qualifications of the experts who have been named in this circular or have given opinions or letters contained in this circular:

| Name | Qualifications |
|---|---|
| Moore Stephens CPA Limited | Certified public accountants |
| Opus Capital Limited | A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| Roma Appraisals Limited | Valuer |

As of the Latest Practicable Date, each of the above experts had given and had not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Enlarged Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Enlarged Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2017), 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.

## 11. MISCELLANEOUS

(a) The registered office of the Company is situated at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.

(b) The company secretary of the Company is Ms. Cheuk Tat Yee. Ms. Cheuk is a member of the Hong Kong Institute of Certified Public Accountants.

(c) The head office and principal place of business of the Company in Hong Kong is situated at Room 3402, 34/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

(d) The principal share register of the Company is Estera Trust (Cayman) Limited Clifton at House 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(e) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

## 12. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there were no material adverse changes in the financial or trading positions of the Enlarged Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business in Hong Kong which is situated at Room 3402, 34/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

(a) this circular;

(b) the memorandum and articles of association of the Company;

(c) the Agreement;

(d) the material contracts referred to in the section headed "Material Contracts" in this Appendix;

(e) the written consents of experts referred to in the paragraph headed "Experts and Consent" in this Appendix;

(f) the accountants' report from Moore Stephens CPA Limited containing, *inter alia*, the historical financial information of the Target Company for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, the text of which is set out in Appendix II to this circular;

(g) the assurance report from Moore Stephens CPA Limited on the compilation of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(h) the Valuation Report, the text of which is set out in Appendix V to this circular;

(i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 22 to 23 of this circular;

(j) the letter of advice from Opus Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 24 to 59 of this circular;

(k) the Prospectus;

(l) the annual report of the Company for the year ended 31 December 2017; and

(m) the interim report of the Company for the six months ended 30 June 2018.

## 14. LANGUAGE

In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

WEALTHY WAY

# Wealthy Way Group Limited
# 富道集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3848)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the "**EGM**") of Wealthy Way Group Limited (the "**Company**") will be held at 24/F, Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 7 December 2018, at 4:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

**ORDINARY RESOLUTION**

1. "**THAT**

(a) the conditional sale and purchase agreement dated 22 August 2018 (the "**Agreement**") and entered into between, among others, 廣東恒豐投資集團有限公司 (Guangdong Hengfeng Investment Group Limited*) as vendor, Wealthy Way International Finance Limited as purchaser and Mr. Lu Nuanpei as guarantor, in relation to the sale and purchase of 47% equity interests in 深圳市浩森小額貸款股份有限公司 (Shenzhen Haosen Credit Joint Stock (Limited) Company*) for a total consideration of RMB156,700,000 (subject to adjustment, where applicable) (a copy of the Agreement is marked "A" and produced to the EGM and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved; and

(b) any one or more director(s) of the Company (the "**Director(s)**") be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal, where applicable) which he/she/they consider(s) necessary, desirable or expedient to give effect to the Agreement and the transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole."

Yours faithfully,
On behalf of the Board
**Wealthy Way Group Limited**
**Lo Wai Ho**
*Chairman*

Hong Kong, 21 November 2018

*Registered office:*
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Headquarters and principal place of business in Hong Kong:*
Room 3402
34/F, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

* *The English name is for identification purpose only*

*Notes:*

1. The register of members of the Company will be closed from Thursday, 6 December 2018 to Friday, 7 December 2018, both days inclusive, during which period no transfer of the Company's shares will be registered. In order to determine the entitlement to attend and vote at the EGM, all transfer of the shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer agent in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Wednesday, 5 December 2018.

2. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

4. To be valid, the form of proxy and (if required by the board of Directors) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the offices of 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 not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

5. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned EGM or on a poll demanded at the EGM or any adjournment thereof in cases where the EGM was originally held within 12 months from such date.

6. Where there are joint holders of any shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

7. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the EGM if the member so wish and in such event, the form of proxy shall be deemed to be revoked.

8. If a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a black rainstorm warning signal is expected to be in force at any time between 8:00 a.m. to 5:00 p.m. on the date of the EGM, the EGM will be postponed and members will be informed of the date, time and venue of the postponed EGM by a supplementary notice, posted on the respective websites of the Company and Hong Kong Exchanges and Clearing Limited.

If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is cancelled at or before 8:00 a.m. on the date of the EGM and where conditions permit, the EGM will be held as scheduled.

If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted or remain hoisted after 8:00 a.m. but lowered at or before 12 noon on the date of the EGM, the EGM will be adjourned to 3:00 p.m. on the same day at the same venue.

The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force.

After considering their own situations, members of the Company should decide whether they would attend the EGM under bad weather condition and if they do so, they are advised to exercise care and caution.