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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 or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

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

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云 锋 金 融

Yunfeng Financial Group Limited

雲 鋒 金 融 集 團 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

CONNECTED TRANSACTIONS ENTRY INTO OF SUBSCRIPTION AGREEMENTS AND ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

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



SOMERLEY CAPITAL LIMITED

A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 20 to 43 of this circular.

A notice convening the EGM to be held at Suites 3206-3208, One Exchange Square, 8 Connaught Place, Central, Hong Kong on Friday, 9 October 2020 at 10:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is also 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 share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for the holding of the EGM or any adjournment thereof. 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 should you so wish.

Please see pages ii to iii of this circular for measures being taken to try to prevent and control the spread of COVID-19 at the EGM.

21 September 2020

This circular and the accompanying form of proxy, in both English and Chinese versions, are available on the Company's website at www.yff.com (the "**Company Website**").

Shareholders who have chosen or have been deemed consented to receive the corporate communications of the Company (the "**Corporate Communications**") via the Company Website and who for any reason have difficulty in receiving or gaining access to the circular and the form of proxy posted on the Company Website will promptly upon request be sent the circular and the form of proxy in printed form free of charge.

Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) of Corporate Communications.

Shareholders may send their request to receive the circular and the form of proxy in printed form, and/or to change their choice of the means of receipt of Corporate Communications by notice in writing to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by sending an email to the share registrar of the Company at yunfeng.ecom@computershare.com.hk.

PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing Novel Coronavirus (COVID-19) pandemic and recent requirements for the prevention and control of its spread, the Company will implement precautionary measures against COVID-19 at the EGM for the sake of health and safety of our Shareholders, Directors, staff and other participants which include but not limited to:

- compulsory body temperature checks at the main entrance of the venue where the EGM will be held. Any person with a body temperature of over 37.4 degrees would not be allowed access to the venue. Any denied entry to the venue shall also mean the person would not be allowed to attend the EGM
- mandatory use of appropriate face masks prior to admission to the EGM venue and at all times during the attendance at the EGM, and maintain a safe distance between seats
- the Company shall have the absolute discretion to refuse anyone who does not comply with the above precautionary measures, is subject to quarantine, has any flu-like symptoms or has travelled overseas within 14 days immediately before the EGM, or has close contact with any person under quarantine or with recent overseas travel history access to the venue of the EGM and attend the EGM
- appropriate distance and space will be maintained and as such, the Company may limit the number of attendees at the EGM as appropriate to avoid over-crowding
- the Company will not distribute corporate gifts or provide refreshments

In the interest of all stakeholders' health and safety, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the said meeting in person.

If Shareholders have any questions relating to the EGM, please contact Computershare Hong Kong Investor Services Limited, the Company's share registrar as follows:

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre

183 Queen's Road East

Wan Chai, Hong Kong

E-mail: hkinfo@computershare.com.hk

Tel: 852 2862 8555

Fax: 852 2865 0990

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 7 September 2020 in relation to, among others, the Subscription and the Specific Mandate
“associate(s)”	has the meaning given to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are open for general business
“Company”	Yunfeng Financial Group Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 376)
“Completion”	completion of the subscription of the Shares under the Jade Passion Subscription Agreement and/or the MassMutual Subscription Agreement (as the case may be)
“connected person”	has the meaning given to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held and convened to consider and approve the Subscription and the Specific Mandate
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Qi Daqing, Mr. Chu Chung Yue, Howard and Mr. Xiao Feng, being the independent non-executive Directors, established to advise the Independent Shareholders on the Subscription
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed 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 in respect of the Subscription
“Independent Shareholders”	the Shareholders of the Company, other than the Subscribers and their respective associates who are required to abstain from voting at the EGM to be convened to approve the Subscription Agreements and the transactions contemplated thereunder
“Jade Passion”	Jade Passion Limited, a company incorporated under the laws of the British Virgin Islands and a controlling Shareholder of the Company
“Jade Passion Subscription Agreement”	the subscription agreement dated 7 September 2020 entered into between the Company and Jade Passion
“Last Trading Day”	7 September 2020, being the last full trading day for the Shares immediately before the entry into of the Subscription Agreements
“Latest Practicable Date”	16 September 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Long Stop Date”	6 months from the date of the Subscription Agreements (or such other date as may be agreed by the parties thereto in writing)
“MassMutual”	MassMutual International LLC, a limited liability company formed under the laws of the State of Delaware, the United States of America
“MassMutual Subscription Agreement”	the subscription agreement dated 7 September 2020 entered into between the Company and MassMutual
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Mr. Yu”	Mr. Yu Feng, Chairman of the Group and a non-executive Director
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) in the share capital of the Company
“Specific Mandate”	the specific mandate to be sought at the EGM to allot and issue the Subscription Shares to the Subscribers as contemplated under the Subscription Agreements
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	Jade Passion and MassMutual, each a Subscriber and collectively the Subscribers
“Subscription”	the subscription for the Subscription Shares by the Subscribers pursuant to the Subscription Agreements

DEFINITIONS

“Subscription Agreements”	the Jade Passion Subscription Agreement and the MassMutual Subscription Agreement, and each of them, a “Subscription Agreement”
“Subscription Price”	the price of HK\$3.17 per Share for the issue of each Subscription Share
“Subscription Shares”	a total of 644,665,279 new Shares to be allotted and issued to the Subscribers pursuant to the Subscription Agreements
“Takeovers Code”	The Code on Takeovers and Mergers and Share Buy-backs
“%”	per cent.

LETTER FROM THE BOARD



云 鋒 金 融

Yunfeng Financial Group Limited 雲 鋒 金 融 集 團 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

Chairman:

Mr. Yu Feng *(Non-executive Director)*

Executive Directors:

Ms. Hai Olivia Ou *(Interim Chief Executive Officer)*

Mr. Huang Xin

Registered and Principal Office:

Suites 3201-3204

One Exchange Square

8 Connaught Place

Central

Hong Kong

Non-Executive Directors:

Mr. Adnan Oma Ahmed

Ms. Michael James O'Connor

Independent Non-Executive Directors:

Mr. Qi Daqing

Mr. Chu Chung Yue, Howard

Mr. Xiao Feng

21 September 2020

To the Shareholders,

Dear Sir or Madam,

CONNECTED TRANSACTIONS ENTRY INTO OF SUBSCRIPTION AGREEMENTS AND ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

1. INTRODUCTION

On 7 September 2020 (after trading hours), the Board announced that the Company and Jade Passion entered into the Jade Passion Subscription Agreement in relation to the subscription of 484,665,279 Shares at the Subscription Price of HK\$3.17 per

LETTER FROM THE BOARD

Share. On the same day (after trading hours), the Company and MassMutual entered into the MassMutual Subscription Agreement in relation to the subscription of 160,000,000 Shares at the Subscription Price of HK\$3.17 per Share.

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription Agreements; (ii) the advice and recommendation of the Independent Board Committee; (iii) the advice and recommendation of the Independent Financial Adviser; and (iv) the notice convening the EGM.

2. THE SUBSCRIPTION AGREEMENTS

Principal terms of the Subscription Agreements

(1) *Date*

7 September 2020

(2) *Parties to the Jade Passion Subscription Agreement*

- a) the Company as the issuer; and
- b) Jade Passion as a Subscriber.

(3) *Parties to the MassMutual Subscription Agreement*

- a) the Company as the issuer; and
- b) MassMutual as a Subscriber.

(4) *The Subscription*

Pursuant to the Jade Passion Subscription Agreement, the Company has conditionally agreed to allot and issue, and Jade Passion has conditionally agreed to subscribe for, 484,665,279 Shares at the total subscription price of HK\$1,536,388,934, which shall be payable by Jade Passion at Completion in same day cleared funds to the designated bank account of the Company.

Pursuant to the MassMutual Subscription Agreement, the Company has conditionally agreed to allot and issue, and MassMutual has conditionally agreed to subscribe for, 160,000,000 Shares at the total subscription price of HK\$507,200,000, which shall be payable by MassMutual at Completion in same day cleared funds to the designated bank account of the Company.

LETTER FROM THE BOARD

(5) *The Subscription Shares*

The Subscription Shares represent approximately: (i) 20.00% of the total number of issued Shares as at the date of the Announcement; and (ii) 16.67% of the total number of issued Shares immediately after Completion as enlarged by the issue of the Subscription Shares (assuming that there is no change in the total number of issued Shares between the date of the Subscription Agreements and Completion of the Subscription other than the issue of the Subscription Shares). Based on the current shareholding structure of the Company, the Company will continue to be able to satisfy the public float requirement under the Listing Rules following the issue of the Subscription Shares. The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought at the EGM.

(6) *Ranking*

The Subscription Shares, when allotted and issued, will rank pari passu in all respects among themselves and with all the Shares in issue as at the date of allotment and issue of the Subscription Shares.

(7) *Lock-up*

Save for any transfer of Shares to its affiliates in accordance with the terms of the Subscription Agreements, each of Jade Passion and MassMutual shall not, and shall procure its affiliates not to, sell, transfer or otherwise dispose of any of the Subscription Shares held by it or its affiliates without the prior written consent of the Company for a period of 6 months following Completion.

(8) *The Subscription Price*

The Subscription Price represents:

- a) a discount of approximately 5.93% to the closing price of the Shares of HK\$3.37 per Share as quoted on the Stock Exchange on the Last Trading Day;
- b) a discount of approximately 7.31% to the average closing price for the 5 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.42 per Share;

LETTER FROM THE BOARD

- c) a discount of approximately 7.58% to the average closing price for the 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.43 per Share;
- d) a discount of approximately 7.85% to the average closing price for the 15 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.44 per Share;
- e) a discount of approximately 5.93% to the average closing price for the 90 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.37 per Share;
- f) a discount of approximately 7.58% to the average closing price for the 180 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.43 per Share;
- g) a discount of approximately 16.58% to the closing price of the Shares of HK\$3.80 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- h) an amount equivalent to the Shareholders' equity per Share as at 30 June 2020 of approximately HK\$3.17.

The net Subscription Price, after the deduction of the related expenses, is estimated to be approximately HK\$3.165 per Subscription Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers, having taken into account (i) the unaudited Shareholders' equity per Share of approximately HK\$3.17 as at 30 June 2020, and (ii) the historical share price performance of the Company (i.e. the Subscription Price only representing a small discount to the average closing price of the Shares whether on the Last Trading Day or for the 5 consecutive trading days to 180 consecutive trading days up to and including the Last Trading Day).

The Subscription will not result in a theoretical dilution effect of 25% or more on its own pursuant to Rule 7.27B of the Listing Rules. The Company has not conducted any equity fund-raising activity in the past 12 months immediately preceding the date of the Announcement.

LETTER FROM THE BOARD

(9) *Conditions precedent*

Completion of the Subscription is conditional upon satisfaction (or waiver, if applicable) of the following conditions:

- a) the passing by the Independent Shareholders at a duly convened Shareholders' meeting of the Company of resolution(s) approving the Subscription Agreements and the issue and allotment of the Subscription Shares thereunder;
- b) (in the case of the MassMutual Subscription Agreement) the Jade Passion Subscription Agreement having become unconditional and (in the case of the Jade Passion Subscription Agreement) the MassMutual Subscription Agreement having become unconditional;
- c) the granting of the approval of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares (and such approval not subsequently revoked prior to the date of Completion);
- d) the Shares remaining listed on the Stock Exchange and traded on the Stock Exchange at all times from the date of the Subscription Agreements up to the date of Completion except for the suspension of trading of the Shares for the purpose of clearing the Announcement or the transactions contemplated under the Subscription Agreements or temporary suspension not exceeding 10 consecutive trading days;
- e) there not having occurred or existed as at the date of the Subscription Agreements or as at Completion any event or circumstance which renders or is reasonably expected to render any of the Company's warranties in the Subscription Agreements untrue or incorrect; and
- f) (in the case of the Jade Passion Subscription Agreement) the substantially contemporaneous completion of the Subscription Agreements on the date of Completion; (in the case of the MassMutual Subscription Agreement) the prior completion of the Jade Passion Subscription Agreement or the substantially contemporaneous completion of the Subscription Agreements on the date of Completion.

LETTER FROM THE BOARD

In respect of the MassMutual Subscription Agreement, the condition in sub-paragraph (e) above may be waived by MassMutual, while the conditions in sub-paragraphs (a), (b), (c), (d) and (f) above cannot be waived by any party thereto. In respect of the Jade Passion Subscription Agreement, the conditions in sub-paragraphs (b), (e) and (f) above may be waived by Jade Passion, while the conditions in sub-paragraphs (a), (c) and (d) above cannot be waived by any party thereto.

As mentioned in sub-paragraph (b) above, the Jade Passion Subscription Agreement and the MassMutual Subscription Agreement are inter-conditional upon each other. However, in the event that the MassMutual Subscription Agreement does not become unconditional for whatever reason, Jade Passion may, but is not obliged to, waive the conditions under sub-paragraphs (b), (e) and (f) above if it wishes to proceed with Completion of the Jade Passion Subscription Agreement notwithstanding that the MassMutual Subscription Agreement cannot be completed. On the other hand, as MassMutual cannot waive the conditions in sub-paragraphs (b) and (f) above, the MassMutual Subscription Agreement cannot be completed unless the Jade Passion Subscription Agreement is completed prior to or substantially contemporaneously with the completion of the MassMutual Subscription Agreement.

If any of the conditions precedent under a Subscription Agreement has not been fulfilled (or, if applicable, waived by the relevant party) on or before the Long Stop Date, such Subscription Agreement shall automatically terminate with immediate effect pursuant to its terms and the parties thereto shall be released from all liabilities and obligations under such Subscription Agreement (except for their accrued right or obligations at the date of termination and the respective surviving clauses).

As at the Latest Practicable Date, none of the conditions precedent has been fulfilled.

(10) Completion

Subject to the fulfilment (or where applicable, the waiver) of the conditions set out hereinabove and subject to the performance by the Subscribers of their respective obligations under the Subscription Agreements, Completion shall take place within four Business Days (or such longer Business Days as may be agreed between the Company and the Subscribers) (provided that the parties

LETTER FROM THE BOARD

shall use reasonable efforts to complete within fewer than four Business Days) after the date upon which the last of the conditions (except such conditions which are expressed to be satisfied on or as at the date of Completion but subject to satisfaction thereof on the date of Completion) has been satisfied or, where applicable, waived provided that it shall be a date no later than the Long Stop Date.

Reasons for and Benefits of the Subscription and use of Proceeds

The principal business of the Group includes underwriting life insurance, asset and wealth management, securities transactions, employees share ownership plan management services, investment research, insurance brokerage and proprietary investment. The Group's vision is to utilise financial technology services to further establish a financial services ecosystem and provide a wide range of financial services and products.

The Subscription will further strengthen the Group's capital base and enhance the Group's financial capabilities, which will be beneficial to further optimizing the Group's existing business and financial conditions and achieve the goal to diversify the development of the Group's business. The Group will continue to focus on the development of existing business, and actively seek and develop new growth points, including but not limited to, the establishment and acquisition of projects which could create synergy effect with the existing business and diversification of the Group's business.

The gross proceeds of the Subscription will be HK\$2,043,588,934. The net proceeds of the Subscription, after the deduction of the estimated related expenses to be incurred in the Subscription, will be approximately HK\$2,040,588,934, representing a net subscription price of approximately HK\$3.165 per Subscription Share. The net proceeds of the Subscription are estimated by the Company to be applied in the following manner:

- (i) approximately 60% of the net proceeds on potential strategic investment for business diversification and enhancement. With the funds raised from the Subscription, the Company will have more resources and flexibility to explore opportunities for expansion of its insurance business into markets outside of Hong Kong by either applying for appropriate licenses by the Group itself or acquiring or investing in existing licensed entities, in order to provide cross-border insurance products and services to better serve the needs of the Group's customers. In addition, the funds will also be used to enhance the

LETTER FROM THE BOARD

Group's capabilities in the areas of InsurTech and FinTech, including but not limited to co-operating with external parties in the form of acquisition and joint venture or through self-development. The goal is to achieve technological empowerment in the insurance and financial businesses, and comprehensively promote the transition to full digitalization. The Company is currently in the preliminary stage of considering plans for such expansion and enhancement, but no negotiations in relation to any potential investment have yet materialized;

- (ii) approximately 30% of the net proceeds for supporting the business development purpose as follows:
- approximately 15% to be used for the Group's asset management business. As the Company's asset management platform will launch the financial products from time to time, in order to achieve positive synergies between the Company's capital management and growth of its asset management business, and facilitate external fundraising for such products, the Company may provide seed capital, as direct investor or co-investor in fund products and warehouse high-quality investment products identified by the Company from time to time;
 - approximately 15% to use as standby capital to support (i) the securities brokerage business when more cash is required to be injected into the business to increase its liquid capital resources in accordance with the increased trading volumes; and (ii) the securities financing business when more cash is required to be injected into the business to support higher demand for IPO loans or margin financing transactions; and
- (iii) approximately 10% of the net proceeds for general working capital which covers expenses incurred in the ordinary course of business of the Group, including but not limited to manpower, rental expenses, data license and network expenses and office equipment expenses.

The exact percentage of allocation and the timing of deploying the proceeds for the above purposes is subject to significant uncertainties including but not limited to the negotiation with counterparties, market conditions and demand, global economic environment, investment sentiment, regulatory approval (if applicable) etc., for better effectiveness and returns in respect of those unutilised proceeds, the Company shall adopt a treasury management model that may involve (but shall not be limited to) holding fixed income instruments and high quality financial investments in order to maximize the Shareholders' interest as a whole.

LETTER FROM THE BOARD

The Company has considered other forms of fund-raising methods, namely other means of equity financing (such as a rights issue or an open offer) and debt financing (such as bank and other borrowings). Other means of equity financing, such as a rights issue, would (i) incur additional costs, including but not limited to, underwriting commission and documentation and other professional fees; and (ii) take a relatively longer time when compared to the Subscription taking into account the longer time required for preparing a rights issue prospectus than a circular to the Shareholders and to comply with the regulatory requirements for the trading period/ offer period under a rights issue after the rights issue prospectus is despatched, i.e. the trading period of nil-paid rights Shares should be at least 5 Business Days and the period in which the rights Shares may be accepted by the Shareholders should not be less than 10 Business Days. In relation to debt financing, further borrowings would create additional interest burden for the Group and the due diligence and negotiation process with the relevant banks may be lengthy, and debt financing would also increase the debt-to-equity ratio of the Group. While the Company has considered placing new Shares to independent third parties, the Directors consider that a placing to Jade Passion and MassMutual will reinforce the Group's strategic alliance with both substantial Shareholders and provide an efficient means of raising capital for the Group's needs. Accordingly, the Company has entered into the Subscription Agreements with the Subscribers to provide the Group with further capital.

The Directors (including the independent non-executive Directors) are of the view that the Subscription Agreements are entered into upon normal commercial terms following arm's length negotiations between the Company and the Subscribers and that the terms of the Subscription Agreements (including the Subscription Price) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Application for Listing of the Subscription Shares

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares to be allotted and issued pursuant to the Subscription Agreements.

LETTER FROM THE BOARD

Effect of the Subscription on the Shareholding Structure of the Company

The following table illustrates the shareholding structure of the Company: (i) as at the date of the Announcement; and (ii) immediately after Completion of the Subscription (assuming that there is no change in the issued Shares other than the issue of the Subscription Shares between the date of the Subscription Agreements and the date of Completion of the Subscription).

	As at the date of the Announcement		Immediately after Completion of the Subscription	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Jade Passion Note	1,342,976,000	41.66	1,827,641,279	47.25
MassMutual	800,000,000	24.82	960,000,000	24.82
Public	<u>1,080,350,394</u>	<u>33.52</u>	<u>1,080,350,394</u>	<u>27.93</u>
Total issued Shares	<u>3,223,326,394</u>	<u>100.0</u>	<u>3,867,991,673</u>	<u>100.0</u>

Note:

Mr. Yu, Chairman of the Group and a non-executive Director, is interested in 1,342,976,000 Shares under Part XV of the SFO through Jade Passion, a company which is owned as to 73.21% of its issued share capital by Key Imagination Limited. 91% of the issued share capital of Key Imagination Limited is owned by Yunfeng Financial Holdings Limited, the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu. Mr. Huang Xin, an executive Director, is the sole shareholder of Perfect Merit Limited which owns 900 shares, representing 9% of the equity interest in Key Imagination Limited.

Equity Fund Raising Activities in the Past 12 Months

The Company has not conducted any equity fund raising activities in the 12 months immediately preceding the date of the Announcement.

Information on the Company and the Subscribers

The Company is an investment holding company. The principal activities of the Group are underwriting life insurance, asset and wealth management, securities transactions, employees share ownership plan management services, investment research, insurance brokerage and proprietary investment.

LETTER FROM THE BOARD

Jade Passion is a company incorporated in the British Virgin Islands with limited liability. Its primary business is investment holding. It is held as to 73.21% by Key Imagination Limited and 26.79% by Tsarina Investments Limited (whose principal business is investment holding), which is wholly-owned by an individual named Lin Yi Wei who is an independent third party of the Company. Key Imagination Limited is owned as to 91% by Yunfeng Financial Holdings Limited and 9% by Perfect Merit Limited whose sole shareholder is Mr. Huang Xin, an executive Director. The issued share capital of Yunfeng Financial Holdings Limited is in turn owned as to 70.15% by Mr. Yu and 29.85% by Mr. Ma Yun.

MassMutual is a limited liability company formed under the laws of the State of Delaware, the United States of America. MassMutual holds investments in certain financial services businesses in Asia. The sole member of MassMutual is Massachusetts Mutual Life Insurance Company, a mutual life insurance company incorporated in the United States which does not have any shareholder.

Implications under the Listing Rules

As both Jade Passion and MassMutual are substantial Shareholders, they are connected persons of the Company. Accordingly, the entry into of the Subscription Agreements and the transactions contemplated thereunder (including the Subscription and the issue of the Subscription Shares under the Specific Mandate) constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Yu and Mr. Huang Xin are both directors of Jade Passion who also have indirect shareholding interests in Jade Passion as set out above, Mr. Adnan Omar Ahmed is the chairman, president and chief executive officer of MassMutual, and Mr. Michael James O'Connor is the general counsel and manager of MassMutual, they are deemed or may be perceived to have a material interest in the transactions contemplated under the Subscription Agreements. Accordingly, they have abstained from voting on the Board resolutions in connection with the Subscription. Other than the aforesaid Directors, no other Directors have or may be perceived to have a material interest in the Subscription or are required to abstain from voting on the relevant Board resolutions under the requirements of the Listing Rules.

Grant of Waiver under the Takeovers Code

As Jade Passion alone holds between 30% and 50% of the total issued Shares, upon Completion, its shareholding in the Company will increase by more than 2% from its lowest percentage holding in the 12 month period ending on and inclusive

LETTER FROM THE BOARD

of the date of Completion, and a mandatory offer obligation under Rule 26.1 of the Takeovers Code will technically be triggered on the part of Jade Passion. An application has been made on behalf of Jade Passion to the SFC, and the Executive has granted a waiver pursuant to Note 6(b) to Rule 26.1 of the Takeovers Code from the obligation on the part of Jade Passion to make a general offer for all the Shares not already owned by it and parties acting in concert with it arising as a result of the Completion.

Independent Board Committee and Independent Financial Adviser

The Company has established an Independent Board Committee comprising all the independent non-executive Directors to consider the Subscription and to advise the Independent Shareholders on whether the terms of the Subscription Agreements (including the Subscription Price) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, and in the interests of the Company and its Shareholders as a whole, and to advise on how to vote in respect of the ordinary resolution(s) to be proposed at the EGM for approving the Subscription Agreements and the transactions contemplated thereunder and the grant of the Specific Mandate for the allotment and issue of the Subscription Shares. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

3. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular. At the EGM, resolution(s) will be proposed to approve the Subscription Agreements, the transactions contemplated thereunder and the grant of the Specific Mandate for the allotment and issue of the Subscription Shares.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders taken at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the chairman of the EGM will demand that the resolution(s) to be proposed at the EGM be decided by poll pursuant to Article 74 of the Articles of Association of the Company. An announcement of the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon

LETTER FROM THE BOARD

and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for holding of the EGM or any adjournment thereof. 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 should you so wish.

In accordance with the Listing Rules, any Shareholder who has a material interest in the Subscription shall abstain from voting on the resolution(s) to be proposed at the EGM to approve the Subscription Agreements, the transactions contemplated thereunder and the grant of the Specific Mandate for the allotment and issue of the Subscription Shares. As at the Latest Practicable Date, Jade Passion is interested in 1,342,976,000 Shares, representing approximately 41.66% of the total number of issued Shares, and MassMutual is interested in 800,000,000 Shares, representing approximately 24.82% of the total number of issued Shares. Accordingly, Jade Passion and MassMutual and their respective associates will abstain from voting on the resolution(s) to be proposed at the EGM.

4. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the proposed ordinary resolution(s) for the approval of the Subscription Agreements (including the Subscription Price) and the transactions contemplated thereunder and the granting of the Specific Mandate for the allotment and issue of the Subscription Shares as set out in the notice of the EGM are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM.

5. GENERAL

Your attention is drawn to the general information set out in the Appendix to this circular.

Yours faithfully,

By order of the Board

Yunfeng Financial Group limited

Hai Olivia Ou

Executive Director and Interim Chief Executive Officer



云鋒金融

Yunfeng Financial Group Limited

雲鋒金融集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

21 September 2020

To the Independent Shareholders,

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
ENTRY INTO OF SUBSCRIPTION AGREEMENTS AND
ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE**

We refer to the circular of the Company dated 21 September 2020 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you in relation to the Subscription Agreements, the transactions contemplated thereunder and the grant of the Specific Mandate for the allotment and issue of the Subscription Shares; whether the terms of the Subscription Agreements (including the Subscription Price) are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and how to vote on the resolution(s) proposed at the EGM regarding the Subscription Agreements, the transactions contemplated thereunder and the grant of the Specific Mandate for the allotment and issue of the Subscription Shares, taking into account the recommendations from the Independent Financial Adviser.

Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription Agreements (including the Subscription Price) are fair and reasonable and in the interests of the Company and its Shareholders as a whole and to advise the Independent Shareholders on how to vote on the resolution(s) at the EGM. We wish to

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

draw your attention to the letter from the Independent Financial Adviser as set out on pages 20 to 43 of the Circular, which contains, inter alia, its advice and recommendation to the Independent Board Committee and the Independent Shareholders, together with the principal factors and reasons taken into consideration in arriving at such advice and recommendation.

Having considered the terms of the Subscription Agreements and taken into account the advice and recommendation of Somerley, we are of the view that while the Subscription Agreements were not entered into in the ordinary and usual course of business of the Group, they were entered into upon normal commercial terms following arm's length negotiations between the Company and the Subscribers and that the terms of the Subscription Agreements (including the Subscription Price) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) in relation to the Subscription Agreements, the transactions contemplated thereunder and the grant of the Specific Mandate for the allotment and issue of the Subscription Shares to be proposed at the EGM.

Yours faithfully,

For and on behalf of the
Independent Board Committee

Qi Daqing
*(Independent
Non-executive Director)*

Chu Chung Yue, Howard
*(Independent
Non-executive Director)*

Xiao Feng
*(Independent
Non-executive Director)*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



SOMERLEY CAPITAL LIMITED
20th Floor, China Building
29 Queen's Road Central
Hong Kong

21 September 2020

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

Dear Sirs,

CONNECTED TRANSACTIONS ENTRY INTO OF SUBSCRIPTION AGREEMENTS AND ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription. Details of the Subscription are set out in the circular of the Company dated 21 September 2020 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As both Jade Passion and MassMutual are substantial Shareholders, they are connected persons of the Company. Accordingly, the entry into of the Subscription Agreements and the transactions contemplated thereunder (including the Subscription and the issue of the Subscription Shares under the Specific Mandate) constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As Jade Passion alone holds between 30% and 50% of the total issued Shares, upon Completion, its shareholding in the Company will increase by more than 2% from its lowest percentage holding in the 12 month period ending on and inclusive of the date of Completion, and a mandatory offer obligation under Rule 26.1 of the Takeovers Code will technically be triggered on the part of Jade Passion. An application has been made on behalf of Jade Passion to the SFC, and the Executive has granted a waiver

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

pursuant to Note 6(b) to Rule 26.1 of the Takeovers Code from the obligation on the part of Jade Passion to make a general offer for all the Shares not already owned by it and parties acting in concert with it arising as a result of Completion.

The Independent Board Committee comprising all three independent non-executive Directors, namely Mr. Qi Daqing, Mr. Chu Chung Yue, Howard and Mr. Xiao Feng, has been established to advise the Independent Shareholders in respect of the Subscription and on how they should vote at the EGM. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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

In formulating our advice, we have reviewed, among other things, the Subscription Agreements; the annual report of the Company for the financial year ended 31 December 2019 (the “**2019 Annual Report**”); the interim results announcement of the Company for the six months ended 30 June 2020 (the “**2020 Interim Results Announcement**”); and the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and will remain so up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and the Subscribers, nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Background of the Group and the Subscribers

The Group is principally engaged in underwriting life insurance, asset and wealth management, securities transactions, employees share ownership plan management services, investment research, insurance brokerage and proprietary investment.

Jade Passion is a company incorporated in the British Virgin Islands with limited liability. Its primary business is investment holding. MassMutual is a limited liability company formed under the laws of the State of Delaware, the United States of America. MassMutual holds investments in certain financial services businesses in Asia. Further details on the background of the Subscribers are set out in the section headed “Information on the Company and the Subscribers” in the “Letter from the Board” contained in the Circular. As at the Latest Practicable Date, Jade Passion is interested in 1,342,976,000 Shares, representing approximately 41.66% of the total number of issued Shares, and MassMutual is interested in 800,000,000 Shares, representing approximately 24.82% of the total number of issued Shares.

2. Background to and reasons for the Subscription Agreements

As set out in the 2019 Annual Report, the Group’s major sources of revenue includes those insurance related and other financial businesses including subscription fees and management fees for products launched by the Group, platform fees for distribution of third-parties products, administration fee for employees stock ownership plan management services, brokerage commission income and corporate advisory fee income. Since the acquisition of 60% interest in YF Life Insurance International Limited (“**YF Life**”) in November 2018, the insurance business becomes dominant in the Group’s financial results. As disclosed in the announcement of the Company dated 20 December 2019, the Company further acquired a 9.8% interest in the issued share capital of YF Life through the completion of acquisition of the entire issued share capital of YUVAN Limited and assignment of a shareholder loan of approximately HK\$1.563 billion. The portion of the consideration paid by the Company of around HK\$1.561 billion was settled by cash funded by an unsecured shareholder loan obtained from Key Imagination Limited (which is interested in 73.21% in Jade Passion), at market terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As further set out in the 2019 Annual Report, during 2019, the Group's insurance business remained as authorised insurer licensed to carry on life and annuity, linked long term, permanent health, and retirement scheme management long term insurance businesses in Hong Kong. It also operates in Macau through a branch office and is licensed to sell life insurance products in Macau. As at 31 December 2019, the Group's tied agency force consisted of approximately 2,973 agents in Hong Kong and Macau, compared to 2,701 agents as at the end of 2018. In addition to the tied agency force, the Group also utilise brokers and agency intermediaries, banks and other financial institutions to distribute insurance products. As advised by the executive Directors, looking forward, the Group will continue to develop its tied agency, brokerage and agency intermediary and bancassurance distribution channels to increase penetration in the market, and to broaden its access to potential customers, through various means including growing its tied agency force, expanding its brokerage and agency intermediary distribution channel and establishing new partnerships with suitable banks and financial institutions. However, the volatility of the financial market in 2020 and uncertainties in the global environment may continue to exist in the near term. Against this backdrop, the executive Directors are of the view that the Subscription will further strengthen the Group's capital base and enhance the Group's financial capabilities, which will be beneficial to further optimizing the Group's existing business and financial conditions, and allow the Group to actively seek and develop new growth opportunities which could create synergy effect with its existing business.

As set out in the section headed "Reasons for and benefits of the Subscription and use of proceeds" in the "Letter from the Board" contained in the Circular, the gross proceeds from the Subscription will be HK\$2,043,588,934, and the net proceeds from the Subscription, after the deduction of the estimated related expenses to be incurred in the Subscription, amounts to approximately HK\$2,040,588,934, representing a net Subscription Price of approximately HK\$3.165 per Subscription Share. The net proceeds from the Subscription are estimated by the Company to be applied as to (i) approximately 60% on potential strategic investment for business diversification (for example, through applying appropriate licenses or acquiring/investing in existing licensed entities, and co-operating with external parties in the form of acquisition and joint venture) and enhancement of the Group's existing services and platforms; (ii) approximately 30% for supporting the business development (approximately 15% to be used for the Group's asset management business and the remaining approximately 15% to be used as standby capital to support the securities brokerage business and the securities financing business); and (iii) approximately 10% for general working capital purposes which covers expenses incurred in the ordinary course of business of the Group, including but not limited to manpower, rental expenses, data license

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and network expenses and office equipment expenses. As the Company's asset management platform will launch the financial products from time to time, in order to achieve positive synergies between the Company's capital management and growth of its asset management business, and facilitate external fundraising for such products, the Company may provide seed capital, as direct investor or co-investor in fund products and warehouse high-quality investment products identified by the Company from time to time. Further details with respect to the use of proceeds are set out in the abovementioned section in the Circular.

As discussed with the management of the Company, they have considered other forms of fund-raising, including other means of equity financing (such as a rights issue or an open offer) and debt financing (such as bank and other borrowings). Other means of equity financing, such as a rights issue or an open offer would be more costly to obtain having considered, among others, the underwriting commission, documentation and other professional fees. In addition, a rights issue or an open offer would involve preparation and issue of a prospectus, which, together with the time needed to arrange for a shareholders' meeting if shareholders' approval is required, would result in extended timing for the process and increasing completion risks. In relation to debt financing, further borrowings would create additional interest burden for the Group and the due diligence and negotiation process with the relevant banks may be lengthy, as well as increasing the debt-to-equity ratio of the Group. While the Company has considered placing new Shares to independent third parties, the management of the Company considers that a subscription by Jade Passion and MassMutual will further strengthen the Group's strategic alliance with both substantial Shareholders who are familiar with the business operation of the Group in order to foster long term business growth, and provide an efficient means of raising capital for the Group's needs under the current macro market environment. Pursuant to the Subscription Agreements, both Subscribers' Subscription Shares are subject to a 6-month lock up period. Having considered the alternatives, the executive Directors consider that the Subscription to be the most appropriate fund-raising option available to the Group to raise further capital for its long-term development.

Taking into account (i) the reasons for and benefits of the Subscription, in particular, the Subscription will strengthen the capital base of the Group and enhance its working capital in light of challenging macro environment; (ii) the intended use of proceeds as set out above; and (iii) the Subscription is the most appropriate means for the Group to raise funds among other fund raising alternatives as discussed above, we concur with the executive Directors that the Subscription is in line with the Group's development strategy and is beneficial to the Group in the long-term.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Financial information of the Group

Financial results

Since the acquisition of YF Life in November 2018, the insurance business becomes dominant in the Group's financial results. As disclosed in the 2019 Annual Report, over 98% of the reportable segment revenue in 2019 was contributed by the insurance business. Another operating segment of the Group is other financial services and corporate segment, which includes, among other things, securities brokerage, wealth and asset management and financial technology activities. Set out below are the consolidated financial highlights of the Group for each of the year ended 31 December 2018 and 2019 (as extracted from the 2019 Annual Report), and for the six months ended 30 June 2019 and 2020 (as extracted from the 2020 Interim Results Announcement). It is disclosed in the 2019 Annual Report that the Group has consolidated YF Life's one and a half month financial results in 2018. With full year YF Life's financial result for the year ended 31 December 2019 being consolidated, the Group's financial results for 2019 is not directly comparable to that of 2018. To provide more relevant information, the Company disclosed the insurance business segment's operating results for 2019 and 2018 on a full year basis in its 2019 Annual Report, extracts of which are set out in the table headed "KEY FINANCIAL DATA OF INSURANCE BUSINESS SEGMENT" below.

CONSOLIDATED FINANCIAL RESULTS OF THE GROUP

	For the six months ended 30 June		For the year ended 31 December	
	2020 <i>(unaudited)</i>	2019 <i>(unaudited)</i> <i>(restated)</i>	2019 <i>(audited)</i>	2018 <i>(audited)</i> <i>(restated)</i>
	<i>HK\$ million</i>	<i>HK\$ million</i> <i>(Note 2)</i>	<i>HK\$ million</i>	<i>HK\$ million</i> <i>(Note 1 and 2)</i>
Total income	3,096	3,520	8,280	991
Net earned premium and fee income	1,916	1,681	3,352	549
Net investment income	442	1,756	3,290	346
Other income	465	160	1,624	68
Profit/(Loss) after taxation	262	237	615	(140)
Net profit (loss) attributable to the owners of the Company	109	97	256	(196)
Basic and diluted earnings (loss) per share attributable to the owners of the Company (<i>HK\$</i>)	0.03	0.03	0.08	(0.08)

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Note:

1. YF Life's one and a half month financial result were consolidated in the Group's financial statement for the year ended 31 December 2018.
2. Figures are restated as the Group made certain fair value adjustments to YF Life's identifiable assets and liabilities based on the finalised valuation and purchase price allocation of the acquisition of YF Life.

For the year ended 31 December 2019, total income of the Group mainly comprised (a) premium and fee income from insurance contracts of approximately HK\$3,352 million; (b) investment income of approximately HK\$3,290 million including interest income from unlisted debt securities and mortgage loans, net unrealised gain or loss on financial asset and liabilities and dividend income; and (c) other income of approximately HK\$1,624 million mainly generated from coinsurance. Due to the consolidation of the net profit of YF Life and the improvement in the operation of the existing financial technology business, total income of the Group increased in 2019 and the net loss attributable to the Company's owners of approximately HK\$196 million for the year of 2018 turned into net profit attributable to the Company's owners of approximately HK\$256 million in 2019.

For the six months ended 30 June 2020, the Group's total income mainly included premium and fee income of approximately HK\$1,916 million, investment income of approximately HK\$442 million and other income of approximately HK\$465 million. The net profit attributable to the Company's owners amounted to approximately HK\$109 million for the first half of 2020, representing an increase of approximately 12% compared to that of the prior period. The improvement of the Group's results was mainly due to the growth of the business of YF Life, increase in investment scale and improvement in claims experience together with the improvement of operation result of other financial business in terms of income growth and cost reduction.

KEY FINANCIAL DATA OF INSURANCE BUSINESS SEGMENT

Key financial data of the insurance segment presented under the Hong Kong Financial Reporting Standards (HKFRS) before any fair value adjustments arising from the acquisition of YF Life and intra-group eliminations are extracted from the 2019 Annual Report and the 2020 Interim Results Announcement as below.

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	For the six months ended		For the year ended	
	30 June		31 December	
	2020	2019	2019	2018
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Income				
Premiums and fee income	2,853	2,382	6,018	4,262
Premiums ceded to reinsurer	(618)	(323)	(1,948)	(594)
Change in unearned revenue liability	<u>(304)</u>	<u>(360)</u>	<u>(651)</u>	<u>(574)</u>
Net earned premium and fee income	1,931	1,699	3,419	3,094
Net investment and other income	1,274	1,759	4,676	937
Reinsurance commission and profit	21	16	78	29
Benefits, losses and expenses				
Net policyholders' benefits	833	1,760	3,197	1,102
Commission and related expenses	561	536	1,205	1,105
Deferral and amortisation of deferred acquisition costs	(246)	(423)	(853)	(625)
Management and other expenses	355	348	736	564
Change in future policyholders' benefits	<u>1,236</u>	<u>893</u>	<u>3,038</u>	<u>1,273</u>
Profit before taxation (before disposal of MassMutual Life Insurance Company K.K. in 2018)	487	360	850	641
Taxation	<u>24</u>	<u>24</u>	<u>49</u>	<u>49</u>
Profit after taxation (before disposal of MassMutual Life Insurance Company K.K. in 2018)	463	336	801	592
				<i>(Note)</i>

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Note:

The disposal gain of equity interest in MassMutual Life Insurance Company K.K. in 2018 amounted to HK\$589 million was excluded.

For the year of 2019, the premiums and fee income from the insurance segment increased by approximately 41% year-on-year to approximately HK\$6,018 million, and after deducting the premiums ceded to reinsurer and change in unearned revenue liability, net earned premium and fee income grew by approximately 11% from the previous year to approximately HK\$3,419 million in 2019. Net investment and other income increased by approximately 400% in 2019 comparing to 2018, mainly resulted from an increase in investment gain from investment-linked policies.

The amount of net policyholders' benefits includes net claims, policy benefits and surrenders, interest credited to policyholders' deposits and dividends to policyholders. As more investment gain was passed to policyholders of investment-linked policies in 2019, the amount of net policyholders' benefits increased by approximately 190% compared to the amount in 2018. The amount of change in future policyholders' benefits increased by approximately 139% year-on-year to approximately HK\$3,038 million in 2019. Such increase was mainly driven by new business and natural growth of inforce portfolio.

Due to the combination of the factors discussed above, the insurance segment of the Group, recorded a profit after taxation of approximately HK\$801 million in 2019, representing an increase of approximately 35% as compared to the profit in 2018 (excluding the one-off gain of HK\$589 million from the disposal of MassMutual Life Insurance Company K.K. in 2018).

For the six months ended 30 June 2020, the premiums and fee income from the insurance segment increased by approximately 20% from the same period in 2019 to approximately HK\$2,853 million, and after deducting the premiums ceded to reinsurer and change in unearned revenue liability, net earned premium and fee income grew by approximately 14% to approximately HK\$1,931 million in the first half of 2020. Such increase mainly arised from the newly launched short-term endowment product, other new business and natural growth of inforce portfolio. Net investment and other income decreased by approximately 28% in the first half of 2020 comparing to the prior period, mainly as a result of less investment gain from investment-linked policies. On the other hand, the newly launched short-term endowment product, other new business and natural growth of inforce portfolio contributed to the increase in change in future policyholders' benefits of approximately 38% comparing to that of the first half of 2019. As a result, the

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insurance segment of the Group recorded a profit after taxation of approximately HK\$463 million in the first half of 2020, representing an increase of approximately 38% as compared to the profit after taxation for the six months ended 30 June 2019.

Financial position

The following is a summary of the consolidated financial position of the Group as at 31 December 2018 and 2019, and 30 June 2020 respectively, as extracted from the 2019 Annual Report and the 2020 Interim Results Announcement.

	As at 30 June 2020 (unaudited)	As at 31 December 2019 (audited)	As at 31 December 2018 (audited) (restated)
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Total assets	79,157	75,327	63,888
Total liabilities	63,397	59,864	48,534
Net assets	15,760	15,463	15,354
Equity attributable to Shareholders of the Company	10,231	10,103	9,235
Shareholders' equity per Share (HK\$)	3.17	3.13	2.87

As at 30 June 2020, approximately 72% and 12% of total assets of the Group comprised of investments and value of business acquired respectively. Investments amounted to approximately HK\$57,240 million as at 30 June 2020, representing an increase of approximately 4% from approximately HK\$54,822 million as at 31 December 2019. As at 30 June 2020, approximately 82% of the total investments are consisted of debt securities. Other investments included unit trusts, funds and unlisted equity securities. Value of business acquired was derived from the acquisition of YF Life in 2018. As at 30 June 2020, value of business decreased by approximately 2% compared to the value as at 31 December 2019. Total liabilities of the Group as at 30 June 2020 mainly comprised insurance contract provisions of

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approximately HK\$48,707 million, representing approximately 77% of the Group's total liabilities. Insurance contract provisions mainly included policyholders' deposits and future policyholders' benefits.

The Shareholders' equity per Share as at 30 June 2020, calculated by dividing the equity attributable to Shareholders of the Company of approximately HK\$10,231 million by the number of total issued Shares as of 30 June 2020, was approximately HK\$3.17.

As shown above, the net earned premium and fee income from the insurance segment for the year of 2019 increased by around 11% year-on-year, and the Group's net loss in 2018 turned into net profit in 2019 mainly due to the consolidation of YF Life. For the six months ended 30 June 2020, the net earned premium and fee income and profit after taxation of the insurance segment of the Group grew by approximately 14% and 38% respectively, comparing to the first half of 2019. As advised by the executive Directors, the Group is committed to devote further resources to develop its insurance businesses and seek opportunities for business expansion and diversification in order to maximise Shareholders' value in the long-term.

4. Principal terms of the Subscription Agreements

Set out below is a summary of the principal terms of the Subscription Agreements. Further details of the Subscription Agreements are set out in the section headed "The Subscription Agreements" in the "Letter from the Board" contained in the Circular.

(1) Date

7 September 2020

(2) Parties

For the Jade Passion Subscription Agreement

The Company as the issuer; and
Jade Passion as a Subscriber

For the MassMutual Subscription Agreement

The Company as the issuer; and
MassMutual as a Subscriber

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(3) *Number of the Subscription Shares and the Subscription Price*

The Subscription Price is HK\$3.17 per Subscription Share. The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers, having taken into account (i) the unaudited Shareholders' equity per Share of approximately HK\$3.17 as at 30 June 2020, and (ii) the historical share price performance of the Company. The gross proceeds of the Subscription is HK\$2,043,588,934.

Pursuant to the Jade Passion Subscription Agreement, the Company has conditionally agreed to allot and issue, and Jade Passion has conditionally agreed to subscribe for, 484,665,279 Shares at the total subscription price of HK\$1,536,388,934, which shall be payable by Jade Passion at Completion in same day cleared funds to the designated bank account of the Company. Pursuant to the MassMutual Subscription Agreement, the Company has conditionally agreed to allot and issue, and MassMutual has conditionally agreed to subscribe for, 160,000,000 Shares at the total subscription price of HK\$507,200,000, which shall be payable by MassMutual at Completion in same day cleared funds to the designated bank account of the Company.

The Subscription Shares represent approximately: (i) 20.00% of the total number of issued Shares as at the date of the Latest Practicable Date; and (ii) 16.67% of the total number of issued Shares immediately after Completion as enlarged by the issue of the Subscription Shares (assuming that there is no change in the total number of issued Shares between the date of the Subscription Agreements and Completion of the Subscription other than the issue of the Subscription Shares). Based on the current shareholding structure of the Company, the Company will continue to be able to satisfy the public float requirement under the Listing Rules following the issue of the Subscription Shares. The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought at the EGM.

(4) *Ranking*

The Subscription Shares, when allotted and issued, will rank pari passu in all respects among themselves and with all the Shares in issue as at the date of allotment and issue of the Subscription Shares.

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(5) Lock-up

Save for any transfer of Shares to its affiliates in accordance with the terms of the Subscription Agreements, each of Jade Passion and MassMutual shall not, and shall procure its affiliates not to, sell, transfer or otherwise dispose of any of the Subscription Shares held by it or its affiliates without the prior written consent of the Company for a period of 6 months following Completion.

(6) Conditions precedent

Completion of the Subscription is conditional upon satisfaction (or waiver, if applicable) of the conditions as set out in the sub-section headed “Conditions precedent” under the section headed “The Subscription Agreements” in the “Letter from the Board” contained in the Circular, including but not limited to:

- (i) the passing by the Independent Shareholders at a duly convened Shareholders’ meeting of the Company of resolution(s) approving the Subscription Agreements and the issue and allotment of the Subscription Shares thereunder;
- (ii) (in the case of the MassMutual Subscription Agreement) the Jade Passion Subscription Agreement having become unconditional and (in the case of the Jade Passion Subscription Agreement) the MassMutual Subscription Agreement having become unconditional; and
- (iii) the granting of the approval of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares (and such approval not subsequently revoked prior to the date of Completion).

In respect of the MassMutual Subscription Agreement, the condition set out in sub-paragraph (e) in the sub-section headed “Conditions precedent” in the “Letter from the Board” contained in the Circular maybe waived by MassMutual, while the conditions set out in sub-paragraphs (a), (b), (c), (d) and (f) cannot be waived by any party thereto. In respect of the Jade Passion Subscription Agreement, the conditions set out in sub-paragraph (b), (e) and (f) in the sub-section headed “Conditions precedent” in the “Letter from the Board” contained in the Circular maybe waived by Jade Passion, while the conditions set out in sub-paragraphs (a), (c) and (d) cannot be waived by any party thereto.

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As mentioned in sub-paragraph (b) in the sub-section headed “Conditions precedent” in the “Letter from the Board” contained in the Circular, the Jade Passion Subscription Agreement and the MassMutual Subscription Agreement are inter-conditional upon each other. However, in the event that the MassMutual Subscription Agreement does not become unconditional for whatever reason, Jade Passion may, but is not obliged to, waive the conditions under sub-paragraphs (b), (e) and (f) if it wishes to proceed with Completion of the Jade Passion Subscription Agreement notwithstanding that the MassMutual Subscription Agreement cannot be completed. On the other hand, as MassMutual cannot waive the conditions in sub-paragraphs (b) and (f), the MassMutual Subscription Agreement cannot be completed unless the Jade Passion Subscription Agreement is completed prior to or substantially contemporaneously with the completion of the MassMutual Subscription Agreement.

If any of the conditions precedent under a Subscription Agreement has not been fulfilled (or, if applicable, waived by the relevant party) on or before the Long Stop Date (i.e. 6 months from the date of the Subscription Agreements or such other date as may be agreed by the parties thereto in writing), such Subscription Agreement shall automatically terminate with immediate effect pursuant to its terms and the parties thereto shall be released from all liabilities and obligations under such Subscription Agreement (except for their accrued right or obligations at the date of termination and the respective surviving clauses). As at the Latest Practicable Date, none of the conditions precedent has been fulfilled.

(7) Completion

Subject to the fulfilment (or where applicable, the waiver) of the conditions set out in the sub-section headed “Conditions precedent” under the section headed “The Subscription Agreements” in the “Letter from the Board” contained in the Circular and subject to the performance by the Subscribers of their respective obligations under the Subscription Agreements, Completion shall take place within four Business Days (or such longer Business Days as may be agreed between the Company and the Subscribers) (provided that the parties shall use reasonable efforts to complete within fewer than four Business Days) after the date upon which the last of the conditions (except such conditions which are expressed to be satisfied on or as at the date of Completion but subject to satisfaction thereof on the date of Completion) has been satisfied or, where applicable, waived provided that it shall be a date no later than the Long Stop Date.

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5. Evaluation of the Subscription Price

Comparison of the Subscription Price to recent Share prices

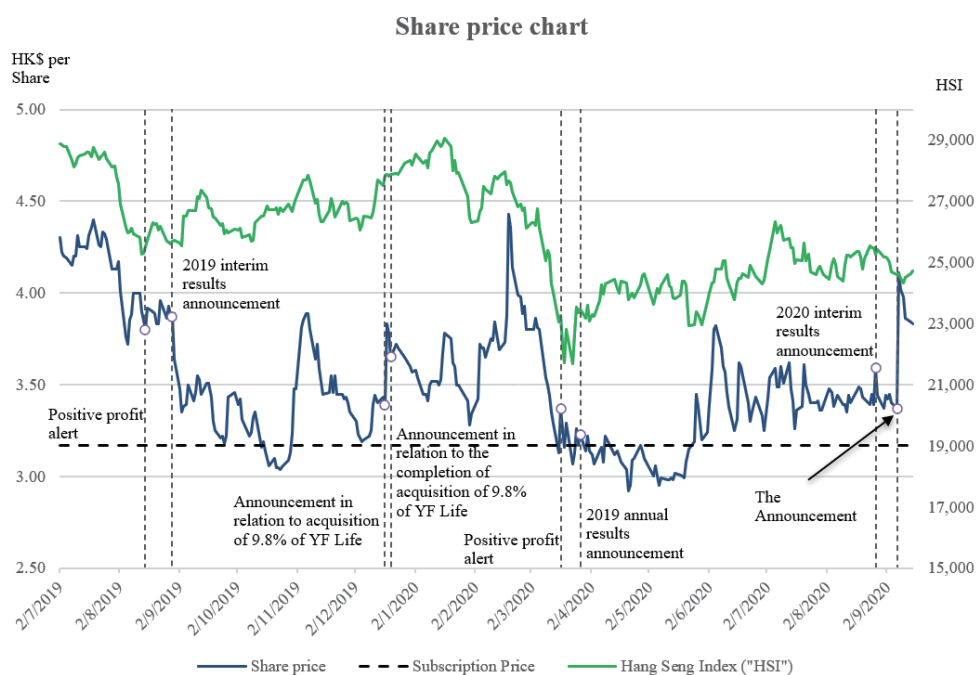
The Subscription Price of HK\$3.17 per Subscription Share represents:

- (1) a discount of approximately 5.93% to the closing price of the Shares of HK\$3.37 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (2) a discount of approximately 7.31% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.42 per Share;
- (3) a discount of approximately 7.58% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.43 per Share;
- (4) a discount of approximately 7.85% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 15 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.44 per Share;
- (5) a discount of approximately 5.93% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.37 per Share;
- (6) a discount of approximately 7.58% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.43 per Share;
- (7) a discount of approximately 16.58% to the closing price of the Shares of HK\$3.80 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (8) an amount equivalent to the Shareholders' equity per Share as at 30 June 2020 of approximately HK\$3.17.

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Historical Share price performance

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 2 July 2019 (being the first trading day in July 2019) up to and including the Latest Practicable Date (the “**Review Period**”), being a period of over one year up to and including the Latest Practicable Date. We consider that the Review Period which covers more than a full year prior to the Latest Practicable Date represents a reasonable period to provide a general overview of the historical trend of the Share price when assessing the Subscription Price.



As illustrated in the chart above, the Share price closed in a range between HK\$2.92 and HK\$4.43 during the Review Period. The Share price fluctuated in a range of HK\$3.72 to HK\$4.40 during the period between 2 July 2019 and 15 August 2019 and closed at HK\$3.80 on 15 August 2019. The Company announced a positive profit alert on 15 August 2019 (after trading hours), Share price went up by approximately 3.2% to HK\$3.92 on 16 August 2019. On 29 August 2019 (after trading hours), the Company published its 2019 interim results announcement. Share price fell by approximately 5.9% from HK\$3.87 on 29 August 2019 to HK\$3.64 on 30 August 2019. Subsequently, the Share price dropped further to HK\$3.35 on 3 September 2019. Since then and up to 17 December 2019, the Share price fluctuated in a range of HK\$3.04 to HK\$3.89, which was largely in line with the movement of the Hang Seng Index. On 17 December 2019 (after trading hours), the Company

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published an announcement in relation to the acquisition of 9.8% of YF Life, a non-wholly owned subsidiary of the Company which was owned as to 60% by the Company before the transaction. The Share price went up by approximately 13.0% from HK\$3.39 on 17 December 2019 to HK\$3.83 on the following day. On 20 December 2019 (after trading hours), the Company published an announcement in relation to the completion of acquisition of 9.8% of YF Life. The Share price closed at HK\$3.72 on the following trading day, 23 December 2019, up by approximately 1.9% from HK\$3.65 on 20 December 2019. The Share price showed a downward trend since then, closing at HK\$3.41 on 8 January 2020. Between the period from 9 January 2020 to 17 March 2020, the Share price fluctuated in a range of HK\$3.13 to HK\$4.43, which was mostly in line with the movement of the Hang Seng Index. On 17 March 2020 (after trading hours), the Company announced a positive profit alert. Share price dropped by approximately 3.3% on the following day, from HK\$3.37 to HK\$3.26. On 27 March 2020 (after trading hours), the Company published its 2019 annual results announcement. Share price closed at HK\$3.14 on the following trading day, down by approximately 2.8% from HK\$3.23 on 27 March 2020. Since then and up to 27 August 2020, the Share price fluctuated in a range of HK\$2.92 to HK\$3.82, which was largely in line with the movement of the Hang Seng Index. On 27 August 2020 (after trading hours), the Company published its 2020 interim results announcement. Share price dropped by approximately 4.2% on the following day, from HK\$3.59 to HK\$3.44.

After publication of the announcement in relation to the Subscription after trading hours on 7 September 2020, the closing price of the Shares increased from HK\$3.37 on the Last Trading Day to HK\$4.11 on the following trading day, suggesting a positive market reaction to the Subscription. Since then and up to the Latest Practicable Date, Share price closed in a range of HK\$3.80 to HK\$4.02. On the Latest Practicable Date, the Share price closed at HK\$3.80, representing a premium of approximately 19.9% over the Subscription Price of HK\$3.17 per Subscription Share.

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Comparable Issues and peer comparison

We have performed an analysis of comparable issues by searching the website of the Stock Exchange on a best effort basis for all share issues (the “**Comparable Issues**”) announced since 1 January 2020 and up to the day immediately before the Latest Practicable Date by companies listed on the Main Board of the Stock Exchange, which involve placing/subscription/issue of new shares under specific mandate, without involving acquisitions, restructuring, loan capitalisation, share award scheme, public offering, mandatory cash offer, whitewash waiver, and issuance of convertible securities or A shares. Share issues which have been terminated or lapsed subsequently are excluded in this analysis. We consider that a review period from 1 January 2020 to the day immediately before the Latest Practicable Date, being a period of approximately nine months, is appropriate and adequate since the Comparable Issues are considered as a general reference for market practice of determining subscription price under recent market conditions. In our opinion, the Comparable Issues represent an exhaustive list of relevant comparable issues based on the above criteria and are fair and representative samples in view of the similarity of the nature of the Comparable Issues and the Subscription.

It should be noted that the subject companies involved in the Comparable Issues may have different principal activities, market capitalisations, profitability or financial positions as compared to those of the Company. However, as the Comparable Issues can provide a general understanding of this type of transaction in the Hong Kong stock market under the current market environment, we consider them an appropriate reference for assessing the Subscription Price.

For each of the Comparable Issues identified, we compared the premium or discount of its placing/issue/subscription price to (a) the closing price on the last trading day or the date of announcement; and (b) average closing price for the last five trading days as disclosed in the respective published announcement/circular, as summarised in the following table. The comparisons with net asset per share are presented in the table for information only.

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Date of announcement	Company name	Stock code	Connected transaction or not	Premium/(discount) of placing/subscription/issue price over/(to)		
				closing share price as at the last trading day or date of announcement as disclosed in the announcement % <i>(approximate)</i>	average closing share price for the last five trading days as disclosed in the announcement % <i>(approximate)</i>	net asset value per share as disclosed in the announcement/ circular ^{1,2} % <i>(approximate)</i>
10 September 2020	Powerlong Commercial Management Holdings Limited	9909	Yes	0	(2.39)	658.87 ⁴
8 September 2020	Koolearn Technology Holding Limited	1797	Yes	(7.30)	(12.80)	1,233.30
2 September 2020	China Uptown Group Company Limited	2330	Yes	47.10 ³	38.10 ³	(73.60)
17 August 2020	IRICO Group New Energy Company Limited	438	No	2.75	0	572.66 ⁴
13 August 2020	OCI International Holdings Limited	329	No	6.56	3.17	242.11
29 July 2020	WuXi AppTec Co., Ltd.	2359	No	(5.20)	(5.40)	1,114.35 ⁴
24 July 2020	Hao Tian Development Group Limited	474	Yes	(13.79)	(15.25)	(38.84) ⁴
13 July 2020	51 Credit Card Inc.	2051	Yes	(24.05)	(1.64)	(74.90)
6 July 2020	China Jinmao Holdings Group Limited	817	Yes	(6.56)	(0.56)	53.64
27 May 2020	Teamway International Group Holdings Limited (“Teamway”)	1239	No	(14.89)	(15.61)	N/A ⁵
23 April 2020	Binhai Investment Company Limited	2886	Yes	0	5.56	18.95 ⁴

¹ Unless otherwise specified.

² Since the subject companies involved in the Comparable Issues are in different industries and their valuation may differ significantly, we are of the view that it is not meaningful to compare the premium/discount represented by the Subscription Price with that of the Comparable Issues in terms of net asset value per share.

³ Excluded in the calculation of the mean/median/maximum/minimum premium/discount as an outlier.

⁴ Calculated based on the then latest published equity attributable to owners of the company and total number of issued shares when the announcement was published.

⁵ Teamway had net liabilities as at 31 December 2019.

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Date of announcement	Company name	Stock code	Connected transaction or not	Premium/(discount) of placing/subscription/issue price over/(to)		
				closing share price as at the last trading day or date of announcement as disclosed in the announcement	average closing share price for the last five trading days as disclosed in the announcement	net asset value per share as disclosed in the announcement/circular ^{1,2}
				%	%	%
				<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>
20 April 2020	China Saite Group Company Limited	153	No	(18.70)	3.30	(90.96)
14 April 2020	AsiaInfo Technologies Limited	1675	No	(27.60)	(26.40)	30.50
3 April 2020	Gemini Investments (Holdings) Limited (“Gemini”)	174	Yes	81.80 ³	98.00 ³	(45.70) ⁶
22 January 2020	CT Vision (International) Holdings Limited	994	Yes	(21.57)	(21.41)	38.68
	Mean (simple average)			(10.03)	(6.88)	
	Median			(7.30)	(2.39)	
	Maximum			6.56	5.56	
	Minimum			(27.60)	(26.40)	
	The Subscription			(5.93)	(7.31)	

Source: The Stock Exchange’s website

As shown in the table above, a majority of the Comparable Issues set out in the table above involved a placing, subscription or issue of new shares at discounts to their respective historical trading prices. The Subscription Price represents (a) a discount of approximately 5.93% to the closing Share price on the Last Trading Day, which is lower than the mean and median discount of the Comparable Issues (excluding the outliers); and (b) a discount of approximately 7.31% to the average closing Share

⁶ As set out in Gemini’s circular dated 28 April 2020, the discount was calculated based on equity attributable to owners of the company after excluding convertible preference shares reserve and perpetual bond.

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price for the five trading days up to and including the Last Trading Day, which is within the range of premium/discount of the Comparable Issues (excluding the outliers). Despite the wide range of discounts/premiums of the Comparable Issues to the closing share price as at the last trading day/the date of announcement and the average closing share price for the five trading days immediately prior to the announcement, given that (i) the Comparable Issues are considered as a general reference for the market practice in relation to placing/subscription/issue of new shares under specific mandate by listed companies under recent market conditions and sentiment; and (ii) the Comparable Issues were selected objectively based on the criteria mentioned above and represent an exhaustive list of relevant comparable issues, we consider it is meaningful to make a comparison between the discounts/premiums represented by the Subscription Price with that of the Comparable Issues in terms of recent share prices as part of our assessment of the Subscription Price.

The Subscription Price is equivalent to the Shareholders' equity per Share as at 30 June 2020. As mentioned in the section headed "Background of the Group and the Subscribers" of this letter, the Group is principally engaged in, among others, underwriting life insurance. The Company's market capitalisation was approximately HK\$12.3 billion as at the trading day immediately before the Latest Practicable Date. Accordingly, we have conducted a search on Bloomberg for insurance company with over 50% of revenue generated from life insurance business listed on the Main Board of the Stock Exchange which have a market capitalisation of less than HK\$60 billion as at the trading day immediately before the Latest Practicable Date, and identified one company, China Taiping Insurance Holdings Company Limited (stock code: 966) ("**China Taiping**"). As sourced from Bloomberg, China Taiping has a price to earnings ("**P/E**") ratio of approximately 8.54 times, and a price to book ("**P/B**") ratio of approximately 0.55 times as at the trading day immediately before the Latest Practicable Date. The implied P/E ratio⁷ and P/B ratio⁸ of the Company at the Subscription Price of approximately 38.21 times and 1.00 times respectively are higher than those of China Taiping.

⁷ Calculated based on the Subscription Price of HK\$3.17 per Subscription Share and the basic earnings per share of the Company, which is calculated as the trailing twelve months profit attributable to Shareholders of the Company divided by the number of total issued Shares as of 30 June 2020.

⁸ Calculated based on the Subscription Price of HK\$3.17 per Subscription Share and the Shareholders' equity per Share of approximately HK\$3.17 as at 30 June 2020.

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Notwithstanding the Subscription Price represents a discount in a range of approximately 5.93% to 7.85% to the closing Share prices for different periods up to and including the Last Trading Day, having considered, in particular, (i) the reasons for and benefits of the Subscription as set out in this letter above; (ii) the Subscription Price is equivalent to the Shareholders' equity per Share as at 30 June 2020 of approximately HK\$3.17; (iii) the size of the proceeds to be received by the Company from the Subscription under the current macro market environment; and (iv) the Group's working capital and financial position is expected to be enhanced after Completion (as further discussed below), we are of the view that the pricing of the Subscription is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

6. Financial effects of the Subscription

The net proceeds of the Subscription, after the deduction of the estimated related expenses to be incurred in the Subscription, are estimated to be approximately HK\$2,040,588,934. As set out in the section headed "Reasons for and benefits of the Subscription and use of proceeds" in the "Letter from the Board" contained in the Circular, the Company intends to apply approximately 60%, 30%, and 10% of the net proceeds of the Subscription on potential strategic investment for business diversification and enhancement, supporting the business development and general working capital purpose, respectively. Further details are set out in the abovementioned section in the "Letter from the Board" contained in the Circular.

According to the 2020 Interim Results Announcement, cash and cash equivalents and net assets of the Group amounted to approximately HK\$2,383 million and HK\$15,760 million respectively as at 30 June 2020. Immediately upon Completion, the amount of cash and cash equivalents and net assets value is expected to increase by the amount of net proceeds of the Subscription to be received by the Company. As such, the executive Directors consider, and we concur that the working capital and financial position of the Group is expected to be enhanced after Completion.

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7. Dilution effects of the Subscription

The following table illustrates the shareholding structure of the Company: (i) as at the Latest Practicable Date; and (ii) immediately after Completion of the Subscription (assuming that there is no change in the total number of issued Shares other than the issue of the Subscription Shares between the date of the Subscription Agreements and the date of Completion of the Subscription).

	As at the Latest Practicable Date		Immediately after Completion of the Subscription	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Jade Passion (<i>Note</i>)	1,342,976,000	41.66	1,827,641,279	47.25
MassMutual	800,000,000	24.82	960,000,000	24.82
Public Shareholders	<u>1,080,350,394</u>	<u>33.52</u>	<u>1,080,350,394</u>	<u>27.93</u>
Total issued Shares	<u>3,223,326,394</u>	<u>100.00</u>	<u>3,867,991,673</u>	<u>100.00</u>

Note:

Mr. Yu, Chairman of the Group and a non-executive Director, is interested in 1,342,976,000 Shares under Part XV of the SFO through Jade Passion, a company which is owned as to 73.21% of its issued share capital by Key Imagination Limited. 91% of the issued share capital of Key Imagination Limited is owned by Yunfeng Financial Holdings Limited, the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu. Mr. Huang Xin, an executive Director, is the sole shareholder of Perfect Merit Limited which owns 900 shares, representing 9% of the equity interest in Key Imagination Limited.

As demonstrated in the table above, Jade Passion will remain as the controlling Shareholder and MassMutual will remain as the substantial Shareholder of the Company immediately after Completion. Shareholdings held by public Shareholders will be diluted from approximately 33.52% as at the Latest Practicable Date to approximately 27.93% immediately after Completion. The Subscription will not result in a theoretical dilution effect of 25% or more on its own pursuant to Rule 7.27B of the Listing Rules. The Company has not conducted any equity fund-raising activity in the past 12 months immediately preceding the date of the Announcement. Having considered (a) the reasons for and benefits of the Subscription as discussed in the section headed “Background to and reasons for the Subscription Agreements” of this letter above; (b) the Subscription Price is considered to be fair and reasonable as discussed under the section headed “Evaluation of the Subscription Price” of this letter above; and (c) the enhancement in the working capital and financial position of the Group immediately after Completion as set out in the section headed “Financial effects of the Subscription” of this letter above, we consider such dilution to be acceptable.

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OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that the terms of the Subscription Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Subscription, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM.

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

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

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. DISCLOSURE OF INTERESTS

Directors' interests

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company 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 were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), or (ii) entered in the register required to be kept under Section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code adopted by the Company were as follows:

Long positions in the ordinary Shares of the Company and the underlying Shares:

Name of Director	Capacity/ Nature of interests	Number of Shares held	
		Long position	Percentage of existing issued Shares
Mr. Yu Feng (<i>Note</i>)	Held by controlled corporation/ corporate interest	1,827,641,279	56.70%

Note: Mr. Yu Feng, Chairman of the Group and non-executive Director, is interested in 1,342,976,000 existing Shares through Jade Passion, a company which is owned as to 73.21% of its issued share capital by Key Imagination Limited. 91% of the issued share capital of Key Imagination Limited is owned by Yunfeng Financial Holdings limited, the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu Feng. Pursuant to the Jade Passion Subscription Agreement, Jade Passion has conditionally agreed to subscribe for 484,665,279 Shares. Therefore, together with the 1,342,976,000 existing Shares, as at the Latest Practicable Date, Mr. Yu Feng is interested in the long position in 1,827,641,279 Shares, which represents 56.70% of the existing issued Shares (i.e. before the issuance of any Subscription Shares).

Long positions in the shares and the underlying shares of associated corporations:

Name of associated corporation	Name of Director	Capacity/ Nature of interests	Number of shares held in associate corporation	
			Long position	Percentage of shareholding
Yunfeng Financial Holdings Limited	Mr. Yu Feng	Beneficial owner/ Beneficial interest	94	70.15%
Key Imagination Limited	Mr. Yu Feng <i>(Note 1)</i>	Held by controlled corporation/Corporate interest	9,100	91%
Key Imagination Limited	Mr. Huang Xin <i>(Note 2)</i>	Held by controlled corporation/Corporate interest	900	9%
Jade Passion	Mr. Yu Feng <i>(Note 1)</i>	Held by controlled corporation/Corporate interest	7,321	73.21%

Notes:

1. Mr. Yu Feng, Chairman of the Group and non-executive Director, is interested in 9,100 shares, representing 91% of equity interest in Key Imagination Limited through Yunfeng Financial Holdings Limited, the substantial shareholder of the Company. Mr. Yu Feng is also interested in 7,321 shares, representing 73.21% of equity interest in Jade Passion through Key Imagination Limited. Both Key Imagination Limited and Jade Passion are substantial shareholders of the Company.
2. Mr. Huang Xin, an executive Director, is the sole shareholder of Perfect Merit Limited which owns 900 shares, representing 9% of the equity interest in Key Imagination Limited.

Save as disclosed above and so far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), or (ii) entered in the register required to be kept under Section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code adopted by the Company.

Interests of Directors as director or employee of a substantial Shareholder or any subsidiaries of a substantial Shareholder

As at the Latest Practicable Date, save for the fact that:

- (a) Mr. Yu Feng and Mr. Huang Xin are directors of Jade Passion;
- (b) Mr. Adnan Omar Ahmed is the chairman, president and chief executive officer of MassMutual; and
- (c) Mr. Michael James O'Connor is the general counsel and manager of MassMutual,

none of the Directors or proposed directors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO.

3. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement which is subsisting at the date of this circular and which is significant in relation to the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

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

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or his or her respective close associates had any business or interest which competes or may compete, either directly or indirectly, with the businesses of the Group, or any other conflicts of interest with the Group.

6. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the professional adviser who has given their opinion or advice contained in this circular:

Name	Qualifications(s)
Somerley Capital Limited	A corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

As at the Latest Practicable Date, Somerley:

1. did not have any shareholding, either directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
2. did not have any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Company were made up; and
3. had given and had not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name, letter and/or report in the form and context in which they respectively appear.

7. MATERIAL ADVERSE CHANGE

So far as the Directors are aware, as at the Latest Practicable Date, there has been no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from the date of this circular up to and including the date of the EGM at the registered office of the Company in Hong Kong:

- a) the Subscription Agreements;
- b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” in this circular;
- d) the written consent referred to in the paragraph headed “Qualification and Consent of Expert” in this Appendix; and
- e) this circular.

NOTICE OF EGM



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Yunfeng Financial Group Limited 雲 鋒 金 融 集 團 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of Yunfeng Financial Group Limited (the “**Company**”) will be held at Suites 3206-3208, One Exchange Square, 8 Connaught Place, Central, Hong Kong on Friday, 9 October 2020 at 10:30 a.m., or in the event that a black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted at 8:30 a.m. or any time after 8:30 a.m. on that day, at the same time and place on the first Business Day (as defined in note (i) below) after 9 October 2020, to consider and, if thought fit, pass with or without modifications, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (a) the subscription agreement dated 7 September 2020 entered into between the Company and Jade Passion Limited (“**Jade Passion**”) (the “**Jade Passion Subscription Agreement**”) (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the subscription agreement dated 7 September 2020 entered into between the Company and MassMutual International LLC (“**MassMutual**”) (the “**MassMutual Subscription Agreement**”) (a copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

NOTICE OF EGM

- (c) the board of directors of the Company (the “**Directors**”) be and is hereby authorized and granted a specific mandate (the “**Specific Mandate**”) to allot and issue to Jade Passion 484,665,279 new shares of the Company, and to allot and issue to MassMutual 160,000,000 new shares of the Company, in each case at the subscription price of HK\$3.17 per share in accordance with the terms and conditions of the Jade Passion Subscription Agreement and the MassMutual Subscription Agreement; and
- (d) any one or more of the Directors be and are hereby authorized to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary, desirable or expedient to give effect to and/or to implement the Jade Passion Subscription Agreement, the MassMutual Subscription Agreement, the Specific Mandate and the transactions contemplated thereunder.”

By Order of the Board
Yunfeng Financial Group Limited
Hai Olivia Ou
Executive Director and Interim Chief Executive Officer

Hong Kong, 21 September 2020

Notes:

- (i) “Business Day” means any day (excluding a Saturday) on which no black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted at 8:30 a.m. on that day and on which banks in Hong Kong are generally open for business. If a black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted at 8:30 a.m. or any time after 8:30 a.m. on 9 October 2020, the EGM will not be held on that day but will be held at the same time and place on the first Business Day after 9 October 2020 instead.
- (ii) A member of the Company entitled to attend and vote at the above meeting shall be entitled to appoint one or more proxies to attend, speak and, on a poll, vote instead of him, provided that each proxy is appointed to represent the respective number of shares held by the shareholder as specified in the relevant proxy form. A proxy need not be a member of the Company but must attend in person to represent you.
- (iii) In the case of joint holders of a share 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 in respect of the joint holding.
- (iv) To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for the holding of the above meeting or any adjournment thereof.

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- (v) This notice is also available for viewing on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.yff.com from 21 September 2020.

- (vi) As at the date of this notice, the Board is comprised of 8 Directors, of which Mr. Yu Feng is Chairman and non-executive Director, Ms. Hai Olivia Ou and Mr. Huang Xin are executive Directors, Mr. Adnan Omar Ahmed and Mr. Michael James O'Connor are non-executive Directors and Mr. Qi Daqing, Mr. Chu Chung Yue, Howard and Mr. Xiao Feng are independent non-executive Directors.