THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in South China Financial Holdings Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank manager, 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.

This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF GOLDEN WAYS LIMITED AND MEDIA BONUS LIMITED; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

德健融資有限公司
DAKIN CAPITAL LIMITED

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

Hercules

Hercules Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

The letter from the Board is set out on pages 5 to 19 of this circular and the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 20 to 21 of this circular. The letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 41 of this circular.

The notice convening the EGM to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong, at 10:00 a.m. on Tuesday, 17 January 2017 is set out on pages 79 to 80 of this circular. The form of proxy for use at the EGM is also enclosed. Whether or not you intend to attend the EGM, you are requested to read the notice, complete the accompanying form of proxy in accordance with the instructions printed thereon and send the duly completed form of proxy to Union Registrars Limited, the share registrar of the Company in Hong Kong, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not later than 48 hours before the time scheduled for 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 if you so wish.

29 December 2016

CONTENTS

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

"Acquisition"	the conditional acquisition of the entire issued share capital of the Target Companies by the Purchaser at the Consideration
"Agreement"	the agreement dated 3 November 2016 entered into between the Purchaser and the Vendors in relation to the Acquisition
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (excluding Saturday and Sunday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
"BVI"	British Virgin Islands
"Company"	South China Financial Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares are listed on the Main Board of the Stock Exchange (Stock Code: 00619)
"Completion"	completion of the transactions contemplated under the Agreement, which shall take place on the Completion Date
"Completion Accounts"	the unaudited consolidated financial statements of Target Group 1 for the period from 1 October 2016 to the Completion Date, and the unaudited financial statements of Target Company 2 for the period from 1 October 2016 to the Completion Date, prepared in accordance with the terms and conditions of the Agreement
"Completion Date"	the next Business Day immediately following the date on which all the conditions precedent to the Acquisition are fulfilled or waived (if applicable) or such other date as the parties to the Agreement agree in writing
"connected person"	has the meaning ascribed to it under the Listing Rules

"Consideration"	HK$20,000,000, being the consideration for the Acquisition, which is subject to adjustment in accordance with the terms of the Agreement
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Copthorne"	Copthorne Holdings Corp., a company incorporated in Panama with limited liability and an indirect wholly-owned subsidiary of SCHC
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee, comprising all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Hercules"	Hercules Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Agreement
"Independent Shareholders"	the Shareholders, other than the Shareholders who have material interests in the transactions contemplated under the Agreement (i.e. Shareholders other than Mr. Ng and his associates)
"Latest Practicable Date"	23 December 2016, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"MOU"	the memorandum of understanding dated 5 October 2016 entered into between the Company (as potential purchaser) and the potential vendors, including Target Company 2, Capital Entrepreneur Limited, Capital CEO Limited and Capital Publishing Limited, regarding the possible acquisition of the financial media businesses
"Mr. Ng"	Mr. Ng Hung Sang, an executive Director, the Chairman of the Board, a Substantial Shareholder of the Company and the ultimate beneficial owner of each of the Vendors
"New Tenancy Agreement(s)"	the tenancy agreement(s) to be entered into between Copthorne (as landlord) and any member(s) of the Target Companies Group (as tenant), for the lease of the Premises on terms substantially the same as or no less favourable than the existing tenancy agreement in respect of the Premises entered into between Copthorne and certain companies beneficially owned by Mr. Ng
"PRC"	the People's Republic of China (for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)
"Premises"	the premises at Unit C and D, 3rd Floor, Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong
"Purchaser"	Perfect Mind Ventures Limited, a company incorporated under the laws of BVI and a directly wholly-owned subsidiary of the Company
"SCHC"	South China Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 00413)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	ordinary shares in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules
"Target Companies"	Target Company 1 and Target Company 2

"Target Companies Group"	collectively, Target Group 1 and Target Company 2
"Target Company 1"	Media Bonus Limited, a company incorporated under the laws of BVI and a directly wholly-owned subsidiary of Vendor 1 as at the Latest Practicable Date
"Target Company 2"	Golden Ways Limited, a company incorporated under the laws of Hong Kong and a directly wholly-owned subsidiary of Vendor 2 as at the Latest Practicable Date
"Target Group 1"	collectively, Target Company 1 and its subsidiaries, namely Capital Publishing Management Limited, Capital CEO Limited, Capital Publishing Limited, Capital Entrepreneur Limited, Watson Century Limited and Capital Marketing and Corporate Services Limited (all being companies incorporated in Hong Kong with limited liability and wholly-owned by Target Company 1)
"United States"	the United States of America
"US$"	United States dollar(s), the lawful currency of the United States
"Valuation Report"	the valuation report issued by Roma Appraisals Limited dated 29 December 2016 in respect of the valuation of the Target Companies Group as at 30 September 2016
"Vendor 1"	Win Gain Investments Limited, a company incorporated under the laws of BVI with the entire interests therein held by Mr. Ng directly as at the Latest Practicable Date
"Vendor 2"	Surge Fast Assets Limited, a company incorporated under the laws of BVI with the entire interests therein held by Mr. Ng beneficially as at the Latest Practicable Date
"Vendors"	Vendor 1 and Vendor 2
"%"	per cent.

SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

Executive Directors:
Mr. Ng Hung Sang *(Chairman)*
Ms. Cheung Choi Ngor
Ms. Ng Yuk Mui Jessica

Independent non-executive Directors:
Hon. Raymond Arthur William Sears, Q.C.
Mrs. Tse Wong Siu Yin Elizabeth
Mr. Tung Woon Cheung Eric

Registered office:
28th Floor
Bank of China Tower
1 Garden Road
Central Hong Kong

29 December 2016

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF GOLDEN WAYS LIMITED AND MEDIA BONUS LIMITED

To the Shareholders

Dear Sir or Madam,

I. INTRODUCTION

Reference is made to the announcement of the Company dated 3 November 2016.

As disclosed in the announcement of the Company dated 5 October 2016 in relation to the MOU, the Company intended to purchase the financial media businesses, including, among others, the publication of the magazines, namely, Capital Weekly (資本壹週), Capital Money (資本創富), Capital Entrepreneur (資本企業家), Capital CEO (資本才俊) and Capital (資本雜誌), event management, marketing services and other related businesses, and the related tangible and/or intangible assets.

Following further negotiations among the parties to the MOU after the signing thereof, the Purchaser (a wholly-owned subsidiary of the Company) and the Vendors entered into the Agreement on 3 November 2016 (after trading hours) whereby the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire issued share capital of the Target Companies at the Consideration of HK$20,000,000, subject to the adjustment (where applicable) set out in the sub-paragraph headed "3. Consideration and adjustment to the Consideration" under the paragraph headed "II. The Agreement" of this letter.

The purpose of this circular is to provide you with, among other things, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder; (iv) the comfort letters from Ernst & Young and Dakin Capital Limited in respect of the information in relation to the Valuation Report; (v) the Valuation Report; and (vi) the notice convening the EGM.

II. THE AGREEMENT

Details of the Agreement and the transactions contemplated thereunder are set out below:

1. Date and Parties

Date 3 November 2016 (after trading hours)

Parties
(a) the Purchaser (as purchaser);
(b) Vendor 1 (as vendor); and
(c) Vendor 2 (as vendor).

As at the Latest Practicable Date, Mr. Ng, an executive Director, the Chairman of the Board and a Substantial Shareholder of the Company, held, in entirety, the direct interests in Vendor 1 and the beneficial interests in Vendor 2.

2. Subject matter

Pursuant to the Agreement, the Purchaser agreed to acquire and the Vendors agreed to sell the entire issued share capital of the Target Companies, being two issued shares of US$1 each in Target Company 1 (approximately HK$16 in aggregate) and one issued share of HK$1 in Target Company 2, subject to the terms and conditions thereof.

Target Company 1 is a company incorporated in BVI with limited liability and Target Company 2 is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, Target Company 1 and Target Company 2 were direct wholly-owned subsidiaries of Vendor 1 and Vendor 2, respectively.

3. Consideration and adjustment to the Consideration

The Consideration is HK$20,000,000 in aggregate, as to HK$18,000,000 payable to Vendor 1 and HK$2,000,000 payable to Vendor 2 for the entire interests in Target Company 1 and Target Company 2, respectively, subject to the adjustment set out below. The Consideration shall be payable to the Vendors by the Purchaser in the following manner:

1. HK$5,000,000, being 25% of the Consideration, as to HK$4,500,000 payable to Vendor 1 and as to HK$500,000 payable to Vendor 2, shall be payable upon signing of the Agreement as initial deposit and part payment of the Consideration (the "**Initial Deposit**"). The sum of HK$5,000,000 previously paid by the Company on behalf of the Purchaser under the MOU on 5 October 2016 shall be treated as the Initial Deposit paid to the Vendors under the Agreement;

2. HK$5,000,000, being 25% of the Consideration, as to HK$4,500,000 payable to Vendor 1 and HK$500,000 payable to Vendor 2, shall be payable upon signing of the Agreement as further deposit and part payment of the Consideration (the "**Further Deposit**"); and

3. the remaining balance of HK$10,000,000 of the Consideration, as to HK$9,000,000 payable to Vendor 1 and HK$1,000,000 payable to Vendor 2, shall be payable within two Business Days from the Completion Date.

The Consideration shall be settled in cash, by cashier order or by bank remittance to the bank account designated by the Vendors or in other manner as agreed by the Vendors and the Purchaser.

Adjustment to the Consideration

The Vendors shall prepare the Completion Accounts and deliver the same to the Purchaser within one month from the Completion Date.

If:

(a) the aggregate of the net assets/liabilities of Target Company 2 and the consolidated net assets/liabilities of Target Group 1 immediately before Completion as at the Completion Date as stated in the Completion Accounts represents net assets on a combined basis ("**Combined Net Assets**"), the amount of Combined Net Assets shall be payable by the Purchaser to Vendor 1 (which collects the sum for itself and/or as the agent of Vendor 2 (as the case may be)) on a dollar-for-dollar basis; or

(b) the aggregate of the net assets/liabilities of Target Company 2 and the consolidated net assets/liabilities of Target Group 1 immediately before Completion as at the Completion Date as stated in the Completion Accounts represents net liabilities on a combined basis ("**Combined Net Liabilities**"), the amount of the Combined Net Liabilities shall be payable by the Vendors, jointly and severally, to the Purchaser on a dollar-for-dollar basis.

Under the Agreement, for administrative convenience, the Purchaser shall not be liable for the payment of the Combined Net Assets and the Vendors shall not be liable for the payment of the Combined Net Liabilities (as the case may be) if the amount of the Combined Net Assets or Combined Net Liabilities (whichever being applicable) is not more than HK$100,000 notwithstanding (a) and (b) above. There is no cap amount on the adjustment to the Consideration.

The Combined Net Assets or the Combined Net Liabilities (as the case may be) shall be settled in cash, by cashier order or by bank remittance to the bank account designated by the Vendors or the Purchaser (as the case may be) or in other manners as agreed by the Vendors and the Purchaser within 10 Business Days from the date on which the Completion Accounts are delivered to the Purchaser.

The Consideration was determined after arm's length negotiations among the Purchaser and the Vendors taking into account the preliminary valuation of the Target Companies Group as at 30 September 2016 of approximately HK$51 million as appraised by an independent valuer by adopting the income-based approach on the bases that (i) the Purchaser will proceed with the Acquisition (subject to, among others, the approval of the Independent Shareholders) only if the Consideration (before adjustment) does not exceed the market value of the Target Companies Group as appraised by the independent valuer appointed by the Company; and (ii) the target of the Acquisition is essentially the businesses of the Target Companies Group and the operating platform thereof, which should not carry net liabilities upon delivery of the same to the Purchaser upon Completion or, where there are Combined Net Liabilities at Completion, the Combined Net Liabilities should be adjusted to the Consideration on a dollar-for-dollar basis as detailed in the above (reciprocal treatment applies in the case of Combined Net Assets for the consensus to the treatment for Combined Net Liabilities). Adopting the above bases, the Purchaser strived for favourable terms to the extent acceptable to the Vendors.

A substantial part of the consolidated net liabilities of Target Group 1 and the net liabilities of Target Company 2 as at 30 September 2016 was attributable to the loans owed to a fellow subsidiary of Vendor 2. In line with basis (ii) referred to in the preceding paragraph, settlement of loans from related parties was made a condition precedent in the Agreement (please refer to the paragraph headed "4. Conditions precedent" of this letter for details).

The Consideration will be funded by internal resources of the Group.

4. Conditions precedent

Completion is conditional upon the following conditions having been fulfilled or waived (as the case may be):

a. the passing of resolution(s) by the Independent Shareholders at the EGM in accordance with the Listing Rules to approve the Agreement and the transactions contemplated thereunder;

b. if required, the Target Companies having obtained all necessary consents, approvals and authorisations from the government, regulatory authorities or third parties for the change of beneficial ownership as contemplated under the Agreement;

c. the Purchaser being satisfied with the results of the due diligence exercise of the Target Companies Group;

d. the final valuation of the Target Companies Group as appraised by the independent valuer appointed by the Company being not less than HK$20,000,000 in aggregate; and

e. settlement of all the related party loans owing by any member of the Target Companies Group to the Vendors, its holding company(ies) or the subsidiaries thereof (other than the Target Companies Group) by any means, whether in cash, by assignment, capitalisation or wavier or otherwise.

Save for the condition as stated in (a) above, the Purchaser may at its absolute discretion waive any of the above conditions precedent depending on the actual circumstances if it is in the interest of the Company and the Shareholders as a whole to do so. As at the Latest Practicable Date, the Directors had no intention to waive any of the conditions precedent above.

In the event that any of the above conditions precedent are not fulfilled or waived (as the case may be) at or before 5:30 p.m. on 2 February 2017 (or such later date as may be agreed by the parties to the Agreement in writing), the Agreement shall lapse and no party to the Agreement will have any further rights or obligations under the Agreement except in respect of the specific provisions as set out in the Agreement which will continue in full force and effect and no party to the Agreement shall have any claim against or liability to the other party, save for antecedent breaches of the Agreement.

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

Further, if at any time before Completion, any of the warranties of the Vendors are found to be incorrect or misleading or have not been fully carried out in any material respect, or in the event that any of the Vendors becoming unable or failing to do anything required under the Agreement to be done by it on or before the Completion Date, the Purchaser may rescind the

Agreement. In such case, the Vendors shall fully indemnify the Purchaser in respect of all fees, costs and expenses incurred by the Purchaser in connection with the negotiation, preparation, execution and rescission of the Agreement.

In the event of lapse of the Agreement or rescission of the Agreement by the Purchaser, the Vendors shall refund the Initial Deposit and the Further Deposit in full to the Purchaser within 10 Business Days from the date of lapse or rescission of the Agreement.

5. Completion

Completion shall take place on the Completion Date.

6. Undertakings

Non-competition and non-solicitation

Each of the Vendors undertakes that it will not, and will procure that their associated company (as defined under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) and agent (save and except the Group) will not, at any time, either for itself or as agent of any person and either directly or indirectly:

a. for a period of two years from the Completion Date, carry on, be engaged, concerned or interested in or in any way assist in any business in Hong Kong similar to or which competes (either directly or indirectly) with any major business carried on by the Target Companies Group as at the date of the Agreement, namely the publication of printed magazines which are solely finance related and sold and circulated in Hong Kong (the "**Restricted Activity**");

b. for a period of two years from the Completion Date, in competition with the Target Companies Group in the Restricted Activity, canvass or solicit or accept orders from or do business with any person with whom any member(s) of the Target Companies Group has/have done business regarding the Restricted Activity during the twelve months preceding the date of the Agreement, or otherwise induce or endeavour to induce any such person to cease being a customer of any member(s) of the Target Companies Group regarding the Restricted Activity; and

c. at any time after the date of the Agreement do or say anything which may be harmful to the reputation of the Target Companies Group.

Transfer of intellectual properties

In addition, the Vendors shall, as soon as practicable after signing of the Agreement, procure the relevant owner(s) or applicant(s) of certain trademarks currently used by the Target Companies Group (the "**Transferred Trademarks**") to transfer and assign the Transferred Trademarks, at nominal consideration, to the member(s) of the Target Companies Group as directed by the Purchaser, and to do all such things necessary and to execute all documents required for the transfer and assignment of the ownership and rights attached to the Transferred Trademarks to the member(s) of the Target Companies Group as directed by the Purchaser. Upon the execution of relevant transfer document(s) and/or assignment(s) evidencing the transfer and assignment of the Transferred Trademarks, the Vendors shall procure the relevant owner(s) or applicant(s) of the Transferred Trademarks to take all necessary actions to assist such member(s) of the Target Companies Group to whom the Transferred Trademarks are so transferred or assigned to register the transfer and/or assignment of the Transferred Trademarks with relevant authority in accordance with applicable laws and regulations.

Entering into the New Tenancy Agreement(s)

As at the date of the Agreement, certain members of the Target Companies Group were using the Premises, which was under leases pursuant to the tenancy agreements entered into between Copthorne (as landlord) and certain companies beneficially owned by Mr. Ng (as tenants), as their offices.

Pursuant to the Agreement, the Vendors shall, as soon as practicable after the signing of the Agreement, and in any event before Completion, procure Copthorne (as landlord) to enter into the New Tenancy Agreement(s) with the member(s) of the Target Companies Group (as tenant). If the New Tenancy Agreement(s) is/are not entered into prior to or at Completion, the relevant tenant shall, at no costs provide the Premises to and allow the same to be used by the member(s) of the Target Companies Group until the New Tenancy Agreement(s) are executed.

The key terms of the existing tenancy agreement in respect of the Premises have been disclosed in the announcements issued by SCHC dated 30 June 2015 and 15 January 2016. Disclosure of the existing tenancy agreement in respect of Unit C, 3rd Floor, Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong was made in the first mentioned announcement (please refer to the paragraph headed "The Jessicacode Rental Agreement" in the said announcement for details). The other announcement covers, among others, the key terms of the existing tenancy agreement in respect of Units A, B and D, 3rd Floor, Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong (please refer to the sub-paragraph headed "SCM Tenancy Agreement" under the paragraph headed "Renewal of Tenancy Agreements" in such announcement for details) of which Unit D forms part of the Premises. Based on the aforesaid existing tenancy agreement, the monthly rental of Unit D, 3rd Floor, Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong pro-rated to the attributable gross floor area thereof amounts to HK$34,424.50.

If the Vendors fail to perform their obligations under any of the undertakings in the Agreement, the Directors will consider all possible ways to enforce such undertaking(s) including, without limitation, negotiating and/or lodging claims with the Vendors or pursuing legal actions against the Vendors.

Copthorne is an indirect wholly-owned subsidiary of SCHC. While Mr. Ng is the chairman, an executive director and the controlling shareholder of SCHC and, hence, a connected person of SCHC, he is also an executive Director, the Chairman of the Board and a Substantial Shareholder of the Company. Thus, Copthorne is a connected person of the Company. In addition, the members of the Target Companies Group will become wholly-owned subsidiaries of the Company upon Completion. Thus, the execution of the New Tenancy Agreement(s) will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Where the annual caps exceed the de minimis threshold, an announcement will be published by the Company in compliance with the requirements under the Listing Rules as and when appropriate and necessary.

III. INFORMATION ON THE GROUP

The Purchaser is a company incorporated in BVI with limited liability and is a direct wholly-owned subsidiary of the Company. The Company is an investment holding company. The principal activities of the Group consist of securities, commodities, bullion and forex broking and trading, margin financing, money lending, provision of corporate advisory, underwriting and wealth management services, property investment and investment holding.

IV. INFORMATION ON THE VENDORS AND THE TARGET COMPANIES GROUP

Target Company 1 is a company incorporated in BVI with limited liability. Target Company 2 is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, Target Company 1 and Target Company 2 were direct wholly-owned subsidiaries of Vendor 1 and Vendor 2, respectively. To the best knowledge, information and belief of the Directors, each of the Vendors is an investment holding company incorporated in BVI with limited liability. As at the Latest Practicable Date, Mr. Ng, an executive Director, the Chairman of the Board and a Substantial Shareholder of the Company, held the entire interests in (i) Vendor 1 directly; and (ii) Vendor 2 indirectly.

As at the Latest Practicable Date, Target Company 1 had six wholly-owned subsidiaries, namely Capital Publishing Management Limited, Capital CEO Limited, Capital Publishing Limited, Capital Entrepreneur Limited, Watson Century Limited and Capital Marketing and Corporate Services Limited, all being companies incorporated in Hong Kong with limited liability.

The Target Companies Group is principally engaged in financial media businesses including publication of the magazines (namely, Capital Weekly (資本壹週), Capital Money (資本創富), Capital Entrepreneur (資本企業家), Capital CEO (資本才俊) and Capital (資本雜誌)), event management, marketing services and other related businesses. Capital Weekly and Capital Money are published weekly and sold as one set. The other magazines are published monthly with Capital CEO and Capital Entrepreneur sold as one set. Capital focuses more on the economic environment in Hong Kong and the PRC, while Capital CEO and Capital

Entrepreneur mainly cover business and lifestyle topics targeting senior executives. Capital Weekly and Capital Money include mainly articles on the medium to long-term outlook of the global or regional investment markets, and short term investment overview(s) on various investment tools, respectively.

To the best of the Directors' knowledge and belief and based on the information currently available, Vendor 1 and Vendor 2 acquired Target Company 1 and Target Company 2 in the following transactions:

Vendor 1 entered into an agreement with South China Land Limited (now known as South China Assets Holdings Limited (Stock Code: 8155)) on 24 March 2010 to acquire the entire issued share capital of Target Company 1 together with the shareholder's loan (in the sum of approximately HK$15.8 million as at 30 April 2010) at a consideration of HK$100,000 (the "**2010 Acquisition**"). The 2010 Acquisition was completed in July 2010. At the relevant time, Target Company 1 and its then subsidiaries, namely Capital Publishing Limited, Capital CEO Limited, Capital Entrepreneur Limited, Capital Publishing Management Limited and Watson Century Limited, were engaged in the publication of the magazines titled "Capital", "Capital CEO" and "Capital Entrepreneur". Capital Marketing and Corporate Services Limited was incorporated by Target Company 1 subsequent to the 2010 Acquisition. Mr. Ng (the beneficial owner of Vendor 1) and his associates held more than 66% of the total issued share capital of South China Land Limited as at 24 March 2010 and the date of completion of the 2010 Acquisition. Please refer to the circular of South China Assets Holdings Limited dated 7 June 2010 and the annual report of South China Assets Holdings Limited for the year ended 31 December 2010 for further details regarding the 2010 Acquisition.

Vendor 2 entered into an agreement with Tek Lee Finance And Investment Corporation Limited, a then indirect wholly-owned subsidiary of South China Holdings Limited (Stock Code: 265) ("**SCHL**"), on 28 December 2007, to acquire the entire issued share capital of South China Media Limited ("**South China Media**") together with the shareholder's loan (in the sum of approximately HK$14.0 million as at 31 December 2007) at a consideration of HK$30,000,000 (the "**2008 Acquisition**"). The 2008 Acquisition was completed in February 2008. At the relevant time, (i) Target Company 2 was one of wholly-owned subsidiaries of South China Media; and (ii) South China Media and its then wholly-owned subsidiaries, including Target Company 2, were engaged in the publication of more than 10 magazines, including "Capital Weekly" (of which "Capital Money" formed part). SCHL was owned as to approximately 73.72% by Mr. Ng (the beneficial owner of Vendor 2) and his associates as at 28 December 2007 and the date of completion of the 2008 Acquisition. At the relevant time, Vendor 2 was an indirect subsidiary of South China (China) Limited (now known as South China Holdings Company Limited) (Stock Code: 413), while South China (China) Limited was an indirect subsidiary of SCHL. Please refer to the announcement dated 28 December 2007 jointly issued by SCHL and South China (China) Limited, the circulars of SCHL and South China (China) Limited dated 16 January 2008 and the annual report of SCHL for the year ended 31 December 2008 for further details regarding the 2008 Acquisition.

Having considered that the (i) consideration for the 2010 Acquisition took into account, among others, the then shareholder's loan of Target Company 1 in the sum of approximately HK$15.8 million; and (ii) consideration for the 2008 Acquisition included the acquisition costs of not only Target Company 2 but also the abovementioned shareholder's loan and the interests in the other then subsidiaries of South China Media, the Company is unable to ascertain the original acquisition cost of each of the Target Companies at the relevant time.

Set out below is the financial information extracted from the unaudited consolidated financial statements of Target Group 1:

	Year ended	
	31 December 2014	**31 December 2015**
	HK$'000	*HK$'000*
Loss before and after taxation	6,342	2,020

	As at 31 December 2015
	HK$'000
Net liabilities	34,122

Set out below is the financial information extracted from the audited financial statements of Target Company 2:

	Year ended	
	31 December 2014	**31 December 2015**
	HK$'000	*HK$'000*
Loss before and after taxation	9,602	10,709

	As at 31 December 2015
	HK$'000
Net liabilities	73,268

Taking into account:

1. the amounts due to a fellow subsidiary accounted for a substantial portion of the liabilities of the Target Companies Group;

2. completion is conditional upon, among others, settlement of all the loans from related parties (including fellow subsidiary(ies)) in cash, or by assignment, capitalisation, waiver or otherwise (please refer to the sub-paragraph headed "4. Conditions precedent" under the paragraph headed "II. The Agreement" of this letter for details);

3. it was expected that, upon Completion, the Target Companies Group will be transferred to the Purchaser free from net liabilities, and Combined Net Liabilities, if any, shall be settled by the Vendors on a dollar-for-dollar basis subject to the threshold of HK$100,000 (please refer to the sub-paragraph headed "3. Consideration and adjustment to the Consideration" under the paragraph headed "II. The Agreement" of this letter for details); and

4. the directors of the Target Companies Group have carried out detailed review of the cash flow forecast of the Target Companies Group and considered that it would have sufficient liquid funds to finance its working capital requirements in the 12 months from 1 January 2017. Such cash flow forecast was also reviewed by the Vendor and the Independent Financial Adviser,

no significant additional funding requirement was expected and, hence, no fund raising activity is anticipated in this respect in the foreseeable future.

Upon Completion, the Target Companies Group will become indirect wholly-owned subsidiaries of the Company and the financial results of the Target Companies Group will be consolidated into the consolidated financial statements of the Group.

Business plan of the Group

(a) Business strategies and sales and marketing

The Company has set up a new business unit to develop its financial public relations ("**FPR**") business. The FPR business generally includes, among others, investor relationship management retainer services, arrangement of investor luncheons, media relations, arrangement and liaison of press conferences, arrangement and logistics planning of roadshows to potential investors, media planning, media buying and press release preparation for promoting and raising market awareness of the client's corporate identity, celebratory messages for initial public offering ("**IPO**"), IPO celebration dinner arrangements, event management services, general press relations, arrangement of press luncheons and investor luncheons, general public relations support services, and annual report announcement public relations services (such as press conferences, media briefings).

The Target Companies Group, without further integration of business services with the FPR business, would be a supplier to the FPR business, in terms of providing media space, editorial and related marketing communication services, support as well as event marketing services. However, the Target Companies Group in its existing business model also provides further marketing communications related services to its corporate advertisers, and acts as an external agency in providing marketing consultancy advice, including media planning, media buying, creative and marketing campaign planning, as well as corporate communication strategies development. The financial public relations firms in the market use to outsource the abovementioned services, which the Target Companies Group currently provides to both the listed and private companies, to media agencies.

The Company aims to bridge the services provided by its FPR business with the Target Companies Group, in order to expand its scope of services to corporate clients as a whole, after Completion**.** The combined services of the FPR and media businesses, would distinguish the positioning of the Company as a financial public relations and corporate marketing consultancy service supplier, and create a more comprehensive and competitive service set. Furthermore, services from both business units could be offered to existing and potential clients, thus expanding the Company's revenue sources.

The Group would benefit from the abovementioned internal corporate marketing platform not only in promoting the Company's corporate image and brand name, but also in providing the relevant services to its clients which it would otherwise have had to outsource to external vendors. Such savings in outsourcing will contribute to the results of the enlarged Group if the Company proceeds with the Acquisition.

In general, the fees charged to the clients are determined on the basis of cost plus a profit margin and subject to negotiations. Also, the scope of work varies from one assignment to another. As such, there is no fixed pricing model.

(b) Human resources

The existing staff of the Target Companies Group was considered to be adequate to meet the present business needs. The Group will, however, recruit more staff for the FPR business team at a pace commensurate with the business growth.

(c) Capital commitments

To the best of the Directors' knowledge, the Target Companies Group had no significant capital commitment as at the Latest Practicable Date. The capital expenditures expected to be incurred in the coming years, which are insignificant, are mainly for computer equipment replacement and upgrade.

V. REASONS FOR AND BENEFITS OF THE ACQUISITION

As disclosed in the announcement of the Company dated 5 October 2016 in relation to the MOU, the Group intended to build and develop the FPR business. The Company's management expected that the Acquisition will have synergy with the Company's current business and potential business expansion plan. Upon Completion, the Target Companies Group will become indirect wholly-owned subsidiaries of the Company. It has been the Company's business strategy to make investments that creates synergy with its existing operations and diversifies its revenue streams. The Target Companies Group is principally engaged in the financial media businesses, including, among others, the publication of the magazines namely, Capital Weekly (資本壹週), Capital Money (資本創富), Capital Entrepreneur (資本企業家), Capital CEO (資本才俊) and Capital (資本雜誌), event hosting and other related businesses. These financial media magazines are circulated in Hong Kong appealing to professionals, top decision makers, chief executive officers, entrepreneurs, owners of private and listed companies, fund managers, analysts and investors in Hong Kong, which are target clients of the Group. The Board believes that, considering the popularity of the financial magazines published by the Target Companies Group, it may create various business opportunities for the Group, including relationship-building across various business lines as well as providing value-added services to its existing clients. Through the financial media platform of the Target Companies Group, the Group will also be able to further enhance its publicity and brand awareness to capture potential business opportunities.

Taking into account of the above factors, the Directors believe that despite the entering into of the Agreement is not in the ordinary and usual course of business of the Company, the terms of the Agreement and the transactions contemplated thereunder are (i) fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned; (ii) on normal commercial terms; and (iii) in the interests of the Group and the Shareholders as a whole.

Mr. Ng is considered to have material interests in the Acquisition by virtue of his interests and directorship in the Company and interests in the Vendors and the Target Companies. As such, Mr. Ng has abstained from voting on the Board resolutions approving the Acquisition. Ms. Ng Yuk Mui Jessica is an executive Director and a director of each of Vendor 2 and Target Group 1 and, therefore, Ms. Ng Yuk Mui Jessica has material interests in the Acquisition by virtue of her common directorship in the Company and each of Vendor 2 and Target Group 1. As such, she has also abstained from voting on the Board resolutions approving the Acquisition. Save as disclosed above, no other Directors have abstained from voting on the said Board resolutions.

As at the Latest Practicable Date, (i) the Company had no intention and there was no negotiation in relation to scale down or dispose of any of its existing business or, save for the Acquisition, acquire any new business; and (ii) there was no agreement, arrangement or understanding to such effect.

VI. LISTING RULES IMPLICATION

As certain of the applicable percentage ratios for the Acquisition under the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Acquisition is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Mr. Ng, an executive Director, the Chairman of the Board and a Substantial Shareholder of the Company, held the entire interests in Vendor 1 directly; and Vendor 2 indirectly. As such, each of the Vendors is an associate of Mr. Ng and therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Mr. Ng, an executive Director, the Chairman of the Board, a Substantial Shareholder of the Company and the ultimate beneficial owner of the Vendors, held 556,663,200 Shares, representing approximately 3.69% of the issued share capital of the Company. Fung Shing Group Limited ("**Fung Shing**"), Parkfield Holdings Limited ("**Parkfield**"), Ronastar Investments Limited ("**Ronastar**") and Uni-spark Investments Limited ("**Uni-spark**") were interested in 3,866,417,184 Shares in aggregate, representing approximately 25.63% of the issued share capital of the Company as at the Latest Practicable Date. As Fung Shing, Parkfield, Ronastar and Uni-spark are wholly-owned by Mr. Ng, they are considered to have material interests in the Agreement and the transactions contemplated thereunder. Therefore, Mr. Ng, Fung Shing, Parkfield, Ronastar and Uni-spark, who are interested in 4,423,080,384 Shares in aggregate (representing approximately 29.32% of the issued share capital of the Company) as at the Latest Practicable Date, will be required to abstain from voting on the resolution to approve the Agreement and the transactions contemplated thereunder at the EGM.

VII. EGM

The notice convening the EGM to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 17 January 2017 at 10:00 a.m. is set out on page 79 to 80 of this circular. Ordinary resolution will be proposed at the EGM to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder by way of poll. The voting results will be announced after the EGM in compliance of the Listing Rules.

VIII. RECOMMENDATION

The Directors (including the members of the Independent Board Committee after considering the advice of the Independent Financial Adviser) consider that despite the entering into of the Agreement is not in the ordinary and usual course of business of the Company, the terms of the Agreement and the transactions contemplated thereunder are (i) fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned; (ii) on normal commercial terms; and (iii) in the interests of the Group and the Shareholders as a whole and, therefore, recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Your attention is drawn to:

(a) this letter from the Board;

(b) the letter of recommendation from the Independent Board Committee is set out on pages 20 to 21 of this circular; and

(c) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 41 of this circular.

IX. FURTHER INFORMATION

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

Yours faithfully,
By order of the Board
South China Financial Holdings Limited
Ms. Ng Yuk Mui Jessica
Executive Director

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder.

SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

To the Independent Shareholders

Dear Sirs or Madams,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF GOLDEN WAYS LIMITED AND MEDIA BONUS LIMITED

We refer to the circular dated 29 December 2016 (the "**Circular**") to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" contained in the Circular. Hercules has been appointed to advise the Independent Shareholders and us in this regard.

Details of the advice and the principal factors and reasons that Hercules has taken into consideration in giving such advice are set out in the "Letter from the Independent Financial Adviser" in the Circular. Your attention is also drawn to the "Letter from the Board" in the Circular and the additional information set out in the appendices thereto.

Having taken into account the terms of the Agreement and the transactions contemplated thereunder, we are of the opinion that despite the entering into of the Agreement is not in the ordinary and usual course of business of the Company, the terms of the Agreement and the transactions contemplated thereunder are (i) fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned; (ii) on normal commercial terms; and

(iii) in the interests of the Group and the Shareholders as a whole. We, therefore, recommend that you vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

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

Hon. Raymond Arthur William Sears, Q.C.	**Mrs. Tse Wong Siu Yin Elizabeth**	**Mr. Tung Woon Cheung Eric**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Hercules setting out its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder.

Hercules
Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

29 December 2016

South China Financial Holdings Limited
28/F., Bank of China Tower
1 Garden Road
Central, Hong Kong

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF GOLDEN WAYS LIMITED AND MEDIA BONUS LIMITED

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the transactions contemplated under the Agreement, details of which are set out in the Letter from the Board contained in the circular of the Company dated 29 December 2016 to the Shareholders (the "Circular"), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 3 November 2016, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendors entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the entire issued share capital of the Target Companies at the Consideration of HK$20 million, subject to adjustment.

As certain of the applicable percentage ratios for the Acquisition under the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Acquisition is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Mr. Ng, an executive Director, the Chairman of the Board and a Substantial Shareholder of the Company, held the entire interests in (i) Vendor 1 directly; and (ii) Vendor 2 indirectly. As such, each of the Vendors is an associate of Mr. Ng and therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the Acquisition, by way of poll, at the EGM.

As at the Latest Practicable Date, Mr. Ng held 556,663,200 Shares, representing approximately 3.69% of the issued share capital of the Company. Fung Shing Group Limited (''Fung Shing''), Parkfield Holdings Limited (''Parkfield''), Ronastar Investments Limited (''Ronastar'') and Uni-spark Investments Limited (''Uni-spark'') were interested in 3,866,417,184 Shares in aggregate, representing approximately 25.63% of the issued share capital of the Company as at the Latest Practicable Date. As Fung Shing, Parkfield, Ronastar and Uni-spark are wholly-owned by Mr. Ng, they are considered to have material interests in the Agreement and the transactions contemplated thereunder. Therefore, Mr. Ng, Fung Shing, Parkfield, Ronastar and Uni-spark, who are interested in 4,423,080,384 Shares in aggregate, representing approximately 29.32% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting on the resolution to approve the Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric, has been established to advise the Independent Shareholders on the terms of the Agreement. We, Hercules Capital Limited, have been appointed, with the approval of the Independent Board Committee, to advise the Independent Board Committee and the Independent Shareholders in this regard, in particular as to whether the terms of the Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We are not associated with the Group and its associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Save for acting as an independent financial adviser in this appointment and an occasion as detailed in the circular dated 31 August 2016 of SCHC, a company of which Mr. Ng is the chairman, the controlling shareholder and a director, we have not acted as a financial adviser or an independent financial adviser to the Company and its associates in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the Group and its associates. We were not aware of any relationship or interest between us and the Company or any other parties that could be reasonably regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as an independent financial adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the EGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the 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 in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purposes of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Acquisition, we have considered the following principal factors and reasons:

1. Information on the Group

The Company is an investment holding company. The principal activities of the Group consist of securities, commodities, bullion and forex broking and trading, margin financing, money lending, provision of corporate advisory, underwriting and wealth management services, property investment and investment holding. For management purposes, the Group has seven reportable operating segments, namely (i) the broking segment which engages in securities, commodities and futures contracts broking; (ii) the trading and investment segment which engages in securities, forex, bullion and futures contracts trading and investment holding; (iii) the margin financing and money lending segment which engages in the provision of margin and personal loan financing; (iv) the corporate advisory and underwriting segment which engages in the provision of corporate advisory and underwriting services; (v) the wealth management segment which engages in insurance broking; (vi) the property investment segment which engages in investment in properties; and (vii) other business segment which includes activities of the provision of clearing and custodian services.

The consolidated financial information of the Group for the six months ended 30 June 2016 and the two years ended 31 December 2015, which was extracted from the interim report and annual report of the Company respectively, is summarized as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2016	2015	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue				
— Broking	13,675	44,971	69,394	54,068
— Trading and investment	25,067	39,485	33,716	9,855
— Margin financing and money lending	10,817	11,216	25,284	19,825
— Corporate advisory and underwriting	9,631	4,450	6,381	5,688
— Wealth management	256	964	1,470	3,006
— Property investment	4,780	4,980	10,431	8,390
— Other business	519	1,150	1,784	4,912
	64,745	107,216	148,460	105,744
(Loss)/profit from operating activities	(9,850)	82,682	2,601	(61,967)
(Loss)/profit before tax	(13,913)	78,162	(9,265)	(72,331)
(Loss)/profit for the period/ year attributable to owners of the Company	(14,225)	77,863	(14,842)	(72,893)

	As at 30 June 2016
	HK$'000
	(unaudited)
Non-current assets	449,005
Current assets	1,290,605
Total assets	1,739,610
Non-current liabilities	(193,325)
Current liabilities	(893,688)
Total liabilities	(1,087,013)
Net assets	652,597
Equity attributable to owners of the Company	652,597

The revenue of the Group for the year ended 31 December 2015 was approximately HK$148.5 million, of which approximately 46.7% (2014: 51.1%) was derived from broking segment, approximately 22.7% (2014: 9.3%) was derived from trading and investment segment, approximately 17.0% (2014: 18.7%) was derived from margin financing and money lending segment, approximately 4.3% (2014: 5.4%) was derived from corporate advisory and underwriting segment, approximately 7.0% (2014: 8.0%) was derived from property investment segment and approximately 2.3% (2014: 7.5%) was derived from the segments of wealth management and other business. The Group recorded an increase of approximately HK$42.7 million (or approximately 40.4%) in its revenue for the year ended 31 December 2015 as compared to the previous year as a result of the increases in (i) commission and brokerage income from the broking segment; (ii) net profit on the trading of securities, forex, bullion and futures contracts from the trading and investment segment; and (iii) interest income from loans and trade receivables from margin financing and money lending segment. Despite other operating expenses of the Group increased by approximately HK$10.2 million for the year ended 31 December 2015 as compared to the last year, the Group recorded profit from operating activities of approximately HK$2.6 million for the year ended 31 December 2015 as opposed to a loss from operating activities of approximately HK$62.0 million for the year ended 31 December 2014 as the increased revenue recouped the increase in other operating expenses for the year ended 31 December 2015 and a fair value loss on investment properties in the amount of approximately HK$33.2 million was recognized in the previous year. The loss before tax of the Group decreased from approximately HK$72.3 million for the year ended 31 December 2014 to approximately HK$9.3 million for the year ended 31 December 2015 even with an increase in an aggregate amount of approximately HK$1.5 million in impairment of investment in an associate and share of loss of an associate for the year ended 31 December 2015. The loss attributable to equity holders of the Company also dropped by approximately HK$58.1 million from approximately HK$72.9 million for the year ended 31 December 2014 to approximately HK$14.8 million for the year ended 31 December 2015.

For the six months ended 30 June 2016, the revenue of the Group was approximately HK$64.7 million, of which approximately 21.1% (2015: 41.9%) was derived from broking segment, approximately 38.7% (2015: 36.8%) was derived from trading and investment segment, approximately 16.7% (2015: 10.5%) was derived from margin financing and money lending segment, approximately 14.9% (2015: 4.2%) was derived from corporate advisory and underwriting segment, approximately 7.4% (2015: 4.6%) was derived from property investment segment and approximately 1.2% (2015: 2.0%) was derived from the segments of wealth management and other business. The Group recorded a decrease of approximately HK$42.5 million (or approximately 39.6%) in its revenue for the six months ended 30 June 2016 as compared to the previous corresponding period, which was mainly attributable to the decreased income from broking business and trading and investment business as a result of weak local stock market turnover and volatile market conditions in the first half of 2016. Meanwhile, the Group recognized a fair value loss on financial assets at fair value through profit or loss of approximately HK$21.8 million for the six months ended 30 June 2016 as opposed to a fair value gain on financial assets at fair value through profit or loss of approximately HK$74.9 million for the six months ended 30 June 2015. With the lowered revenue and the fair value loss recognized as mentioned above, the Group recorded loss from operating activities of approximately HK$9.9 million for the six months ended 30 June 2016 as compared to profit from operating activities of approximately HK$82.7 million for the previous corresponding period although the Group's other operating expense for the six months ended 30 June 2016 decreased by approximately HK$36.2 million as compared to the last corresponding period and a fair value gain on investment property of approximately HK$11.2 million was recognized for the six months ended 30 June 2016. For the six months ended 30 June 2016, the Group recorded loss before tax and loss for the period attributable to equity holders of the Company of approximately HK$13.9 million and HK$14.2 million respectively while profit before tax and profit for the period attributable to equity holders of the Company of approximately HK$78.2 million and HK$77.9 million respectively were recorded for the six months ended 30 June 2015.

As at 30 June 2016, the non-current assets of the Group amounted to approximately HK$449.0 million, of which approximately HK$2.6 million were property, plant and equipment, approximately HK$408.7 million were investment property, approximately HK$29.4 million were available-for-sale investments and approximately HK$6.7 million were other assets, including membership in Chinese Gold and Silver Exchange and statutory deposits in respect of securities and commodities dealings. As at 30 June 2016, the current assets of the Group amounted to approximately HK$1,290.6 million, which mainly consisted of financial assets at fair value through profit or loss of approximately HK$258.7 million, loans receivable of approximately HK$306.9 million, trade and other receivables, prepayments and deposits of approximately HK$156.7 million, cash held on behalf of clients of approximately HK$435.5 million and cash and bank balances of approximately HK$130.1 million.

The non-current liabilities of the Group amounted to approximately HK$193.3 million as at 30 June 2016, which mainly included interest-bearing bank borrowings of approximately HK$162.4 million and deferred tax liabilities of approximately HK$29.8 million. The current liabilities of the Group as at 30 June 2016 amounted to approximately HK$893.7 million, which mainly comprised client deposits of approximately HK$475.8 million, trade and other payables and accruals of approximately HK$42.6 million and interest-bearing bank borrowings of approximately HK$367.8 million. As at 30 June 2016, the net current assets of the Group amounted to approximately HK$396.9 million while the net assets of the Group amounted to approximately HK$652.6 million. The gearing ratio, as expressed as total liabilities over total assets, of the Group was approximately 62.5% as at 30 June 2016.

On 5 October 2016, the Company announced that it intended to build and develop the financial public relations ("FPR") business and entered into the MOU, pursuant to which the Company intended to purchase the financial media businesses, including, among others, the publication of the magazines namely, Capital Weekly (資本壹週), Capital Money (資本創富), Capital Entrepreneur (資本企業家), Capital CEO (資本才俊) and Capital (資本雜誌), event management, marketing services and other related businesses, and the related tangible and/or intangible assets.

2. Information on the Target Companies Group

Target Company 1 is a company incorporated in the BVI with limited liability and is wholly-owned by Vendor 1. Target Company 1 has six wholly-owned subsidiaries, namely Capital Publishing Management Limited, Capital CEO Limited, Capital Publishing Limited, Capital Entrepreneur Limited, Watson Century Limited and Capital Marketing and Corporate Services Limited, all being companies incorporated in Hong Kong with limited liability. Target Company 2 is a company incorporated in Hong Kong with limited liability and is wholly-owned by Vendor 2. As at the Latest Practicable Date, Mr. Ng, an executive Director, the Chairman of the Board and a Substantial Shareholder of the Company, directly wholly-owned Vendor 1 and indirectly wholly-owned Vendor 2.

The Target Companies Group is principally engaged in financial media businesses, including publication of magazines (namely, Capital Weekly (資本壹週), Capital Money (資本創富), Capital Entrepreneur (資本企業家), Capital CEO (資本才俊) and Capital (資本雜誌)), event management, marketing services and other related businesses. Capital Weekly and Capital Money are published weekly and sold as one set. The other magazines are published monthly with Capital CEO and Capital Entrepreneur sold as one set. Capital focuses more on the economic environment in Hong Kong and the PRC, while Capital CEO and Capital Entrepreneur mainly cover business and lifestyle topics targeting senior executives. Capital Weekly and Capital Money include mainly articles on the medium to long-term outlook of the global or regional investment markets, and short term investment overview(s) on various investment tools, respectively.

Target Group 1

The financial information extracted from the unaudited consolidated financial statements of Target Group 1 for the two years ended 31 December 2014 and 31 December 2015 are summarized as follows:

	For the year ended 31 December	
	2015	**2014**
	HK$'000	*HK$'000*
Revenue	18,172	19,438
Loss before taxation	(2,020)	(6,340)
Loss for the year	(2,020)	(6,340)

	As at 31 December 2015
	HK$'000
Non-current assets	24
Current assets	3,470
Total assets	3,494
Current liabilities	(37,616)
Total liabilities	(37,616)
Net liabilities	(34,122)

The principal activities of Target Group 1 are the publication of financial magazines, namely "Capital", "Capital CEO" and "Capital Entrepreneur", event management, marketing services and other related businesses. For the year ended 31 December 2015, revenue of Target Group 1 amounted to approximately HK$18.2 million, of which approximately HK$1.0 million were generated from the sale of magazines, approximately HK$8.1 million were advertising income and approximately HK$9.1 million were promotion and marketing income. The revenue of Target Group 1 decreased by approximately 6.6% as compared to the prior year, which was mainly attributable to the decrease in advertising income from "Capital". Resulting from the effects of stringent cost control implemented by the Target Group 1 during the year ended 31 December 2015 and the transfer of certain staff to Target Company 2, the direct operating expenses decreased by approximately 21.4% from approximately HK$11.2 million for the year ended 31 December 2014 to HK$8.8 million for the year ended 31 December 2015 and the selling and distribution costs decreased by approximately 37.1% from approximately HK$8.9 million for the year ended 31 December 2014 to HK$5.6 million for the year ended 31 December 2015. The net loss of Target Group 1 for the year ended 31 December 2015 amounted to approximately HK$2.0 million, representing a decrease of approximately 68.3% as compared to the net loss of approximately HK$6.3 million for the prior year.

The non-current assets of Target Group 1 as at 31 December 2015 represented minimal furniture and office equipment. As at 31 December 2015, the current assets of Target Group 1 amounted to approximately HK$3.5 million, which comprised trade and other receivables of approximately HK$3.1 million and bank balances and cash of approximately HK$0.4 million. The current liabilities of Target Group 1 as at 31 December 2015 amounted to approximately HK$37.6 million, of which approximately HK$8.3 million were trade and other payables, accrued expenses and receipts in advance and approximately HK$29.3 million were amounts due to related companies. As at 31 December 2015, the net current liabilities and the net liabilities of Target Group 1 amounted to approximately HK$34.1 million and HK$34.1 million respectively. The gearing ratio, as expressed as total liabilities over total assets, of Target Group 1 was approximately 10.8 as at 31 December 2015.

Target Company 2

The financial information extracted from the audited financial statements of Target Company 2 for the two years ended 31 December 2014 and 31 December 2015 is summarized as follows:

	For the year ended 31 December	
	2015	**2014**
	HK$'000	*HK$'000*
Revenue	13,624	12,980
Loss before taxation	(10,709)	(9,602)
Loss for the year	(10,709)	(9,602)

	As at 31 December 2015
	HK$'000
Current assets	2,331
Current liabilities	(75,599)
Net liabilities	(73,268)

The principal activities of Target Company 2 is publication of weekly finance magazines, namely "Capital Weekly" and "Capital Money", which are sold as one set, event management, marketing services and other related businesses. For the year ended 31 December 2015, revenue of Target Company 2 amounted to approximately HK$13.6 million, of which approximately HK$3.3 million were generated from the sale of magazines, approximately HK$5.5 million were advertising income and the remaining approximately HK$4.8 million were promotion and marketing income. The revenue of Target Company 2 increased by approximately 5.0% as compared to the prior year, which was mainly attributable to the increase in promotion and marketing income as the number of event organized increased. The direct operating expenses decreased by approximately 15.5% from approximately HK$14.2 million for the year ended 31 December 2014 to HK$12.0 million for the year ended 31 December 2015 as a result of the reduction in print-run of "Capital Weekly". However, with the increase in selling and distribution costs and administrative expenses in aggregate of approximately HK$4.0 million resulting from the transfer of certain staff from Target Group 1 to Target Company 2, the loss for the year ended 31 December 2015 increased by approximately 11.5% to approximately HK$10.7 million.

As at 31 December 2015, the current assets of Target Company 2 amounted to approximately HK$2.3 million, mainly comprised trade and other receivables of approximately HK$2.2 million and amounts due from related companies of approximately HK$0.1 million. The current liabilities of Target Company 2 as at 31 December 2015 amounted to approximately HK$75.6 million, of which approximately HK$9.9 million were trade and other payables and approximately HK$65.7 million were amount due to a fellow subsidiary. As at 31 December 2015, the net liabilities of Target Company 2 amounted to approximately HK$73.3 million. The gearing ratio, as expressed as total liabilities over total assets, of Target Company 2 was approximately 32.4 as at 31 December 2015.

We noted that the Target Companies Group had net current liabilities and net liabilities as at 31 December 2015. Under normal circumstances, net current liabilities and net liabilities position usually indicate that the company may have a liquidity problem. Therefore, we have discussed with the management of the Company in further details on the liquidity of the Target Companies Group. We were given to understand that the current liabilities of the Target Companies Group mainly included amounts due to related companies/fellow subsidiary(ies) of approximately HK$95.0 million. Such amount mainly represents the loans from related companies/fellow subsidiary of the Target Companies Group for financing the operation. According to the Agreement, Completion is conditional upon, among others, settlement of all the loans from related companies/fellow subsidiary(ies) in cash, or by assignment, capitalization, waiver or otherwise and each of the Vendors has agreed and undertaken that, upon Completion, each of the net assets value of Target Company 2 and the consolidated net assets value of the Target Group 1 shall not be less than HK$0 (with a lower variance of HK$100,000) as at the Completion Date.

The directors of the Target Companies Group have also carried out detailed review of the cashflow forecast of the Target Companies Group for the period up to 30 September 2017 and considered that there would be sufficient liquid funds to finance its working capital requirements in the relevant time, having considered the improving performance of the Target Companies Group in 2016 after the implementation of more stringent cost control measures and the commencement of the new businesses of FPR and contract publishing. Starting from August 2016, the Target Companies Group has proactively promoting its premium media promotion projects including offering of cover and content write up (including print and digital media), marketing services and event management services such as seminars and road shows for initial public offer (“IPO”) candidates, listed and sizeable unlisted corporations and enterprises in Hong Kong, China and Asia Pacific under the FPR business and customized newsletters, corporate brochures, booklets, magazines and periodicals publishing services for corporate clients such as airlines and insurance companies under the contract publishing business. Such strategic moves have successfully boosted the revenue of the Target Companies Group and brought in positive cashflow to the Target Companies Group. We are also satisfied that the assumptions underlying the cashflow forecast of the Target Companies Group were made after due and careful consideration by the directors of the Target Companies Group, therefore we concur with the Directors’ view that the Target Companies Group shall have no immediate threat of liquidity problem.

3. Market overview

According to the Q4 2015 ad spending report released by admanGo, an industry-recognized advertising monitoring company that monitors advertisements, together with ad spend, in Hong Kong every day, covering 22 media types such as television, print, outdoor, digital and mobile with more than 15 years of advertising creative and adspend data, Hong Kong's overall advertising market recorded a year-on-year growth rate of 3% in 2015, of which ad spend in magazine recorded a decline of 15% as the advertising spending by the cosmetics, luxury and fashion segments decreased as a result of the slowdown in the retail industry and negative consumer sentiment. The 2Q 2016 ad spending report released by admanGo revealed that the overall advertising market in Hong Kong continues the downturn in 2016 and recorded a drop of 13% for the first half of 2016 as compared to the previous corresponding period. The above statistics showed that the overall advertising market has a bleak outlook.

We were given to understand from the management of the Company that advertisers from the finance and property sectors are the major source of the magazine advertising income and promotion and events income of the Target Companies Group, which accounted for approximately 67% of the magazine advertising income and 55% of the promotion and events income of the Target Companies Group respectively for the nine months ended 30 September 2016. Therefore the adverse impact of the slowdown in the retail industry and negative consumer sentiment on the Target Companies Group's advertising income is relatively lenient.

Although the business environment for the media publishing business is challenging, the Company considers that the magazines of the Target Companies Group, with niche positioning in the finance market, may have advantage on the active financial market. With reference to Hong Kong Monthly Digest of Statistics October 2016 issued by Census and Statistics Department of Hong Kong, the business receipts indices of financial markets and asset management sector under financing industry (excluding banking industry) was 101.3, 110.3, 131.3, 108.5 and 127.5 for the year 2013, 2014 and 2015, the first quarter of 2016 and the second quarter of 2016 respectively. Meanwhile, Securities and Derivatives Markets Quarterly Report — Third Quarter 2016 issued by Hong Kong Exchanges and Clearing Limited revealed that the number of listed companies in Hong Kong increased from 1,816 in September 2015 to 1,930 in September 2016. In the third quarter of 2016, the average daily turnover in the securities market of the Main Board and the Growth Enterprise Market ("GEM") Board was approximately HK$47.5 billion and approximately HK$517.7 million respectively, representing an increase of approximately 14.7% and 1.8% as compared to the second quarter of 2016. The number of newly listed companies also increased from 20 in the second quarter of 2016 to 38 (including companies transferred from GEM Board to Main Board) in the third quarter of 2016. The management of the Company anticipated that the active financial market and increasing number of newly listed companies in Hong Kong shall stimulate the demand of FPR services and advertising services in financial media.

4. Reasons for the Acquisition

The Company is an investment holding company. The principal activities of the Group consist of securities, commodities, bullion and forex broking and trading, margin financing, money lending, provision of corporate advisory, underwriting and wealth management services, property investment and investment holding. The Target Companies Group is principally engaged in financial media businesses, including, among others, the publication of the magazines namely, Capital Weekly (資本壹週), Capital Money (資本創富), Capital Entrepreneur (資本企業家), Capital CEO (資本才俊) and Capital (資本雜誌), event management, marketing services and other related businesses.

As set out in the announcement of the Company dated 5 October 2016, the Group intended to build and develop the FPR business. The Company has set up a new business unit to develop its FPR business, which generally includes, among others, investor relationship management retainer services, arrangement of investor luncheons, media relations, arrangement and liaison of press conferences, arrangement and logistics planning of roadshows to potential investors, media planning, media buying and press release preparation for promoting and raising market awareness of the client's corporate identity, celebratory messages for IPO, IPO celebration dinner arrangements, event management services, general press relations, arrangement of press luncheons, general public relations support services, and annual report announcement public relations services (such as press conferences, media briefings).

It has been the Company's business strategy to make investments that creates synergy with its existing operations and diversifies its revenue streams. Capital Weekly (資本壹週), Capital Money (資本創富), Capital Entrepreneur (資本企業家), Capital CEO (資本才俊) and Capital (資本雜誌) are financial magazines circulated in Hong Kong appealing to professionals, top decision makers, chief executive officers, entrepreneurs, owners of private and listed companies, fund managers, analysts and investors in Hong Kong, which are target clients of the Group. The management of the Company expected that the Acquisition would have synergy with the Company's current business and potential business expansion plan.

Upon Completion, the Target Companies Group will become indirect wholly-owned subsidiaries of the Company. Considering the popularity of the financial magazines published by the Target Companies Group, the Board believes that, it may create various business opportunities for the Group including relationship-building across various business lines as well as providing value-added services to its existing clients. The Target Companies Group, without further integration of business services with the FPR business of the Group, would be a supplier to the FPR business, in terms of providing media space, editorial and related marketing communication services, support as well as event marketing services. However, the Target Companies Group in its existing business model also provides further marketing communications related services to its corporate advertisers, and acts as an external agency in providing marketing consultancy advice, including media planning, media buying, creative and marketing campaign planning, as well as corporate communication strategies development. The FPR firms in the market are used to outsource the abovementioned services, which the Target Companies Group currently provides to both the listed and private companies, to media agencies. In addition, through the financial media platform of the Target Companies Group, the Group will also be able to further enhance its publicity and brand awareness to capture potential business opportunities.

We noted that the Target Companies Group recorded losses for the year ended 31 December 2015 and had net liabilities as at 31 December 2015. However, we also noted that the financial performance of the Target Companies Group has been improving as a result of the implementation of more stringent cost control measures, which have effectively reduced the running costs and overheads of the Target Companies Group. The combined loss of the Target Companies Group decreased by approximately 20.1% from approximately HK$15.9 million for the year ended 31 December 2014 to approximately HK$12.7 million for the year ended 31 December 2015. The performance of the Target Companies Group further improved during the nine months ended 30 September 2016. With reference to the unaudited management accounts of the Target Companies Group, the combined loss of the Target Companies Group reduced to approximately HK$3.4 million for the nine months ended 30 September 2016. The directors of the Target Companies Group expect that the performance of the Target Companies Group shall continue to improve in 2017.

During the discussion with the management of the Company, we were also given to understand that the Target Companies Group has modified its business model regarding advertising by putting more effort on promotion of the images of its corporate clients and their senior executives in addition to the traditional advertisements of products and services on pages of magazines. Meanwhile, the Target Companies Group's two new businesses, namely FPR and contract publishing, which have been commenced in August 2016, have already started to contribute revenue to it. According to the management accounts of the Target Companies Group, the newly commenced businesses has generated revenue of approximately HK$1.9 million since the commencement of the businesses. The Target Companies Group expects that the advertising income of the Target Companies Group would be approximately HK$8.6 million and HK$7.6 million for the last quarter of 2016 and the first quarter of 2017 respectively. Up to 30 November 2016, approximately 61% of the forecast advertising income for the last quarter of 2016 and 20% of the forecast advertising income for the first quarter of 2017 has been confirmed by the customers either by execution of contracts or email or verbal confirmation. As December is the high season for advertising events or campaigns, the directors of the Target Companies Group expect that more revenue will be recorded for the month and consider that the forecast advertising income for the last quarter of 2016 is achievable.

According to the management of the Group, the Group has committed to operating FPR business with a strategy to pursue a model integrating typical FPR services with media platform and has recruited a senior personnel to manage the business. The Directors consider that the Acquisition gives the Group an opportunity to acquire an established team with well-developed media platform and business network in the financial media industry which not only saves the resources to build a new team for the FPR business itself from scratch but also allows the Group to move inroads to building and operating the FPR business in a model combining financial media platform, which is unique in the market, and strengthening the Group's capability in offering one-stop comprehensive financial and public relation solutions for clients via the Group's own platforms in future. Furthermore, services from both business units could be offered to existing and potential clients, thus expanding the Company's revenue sources.

In view of the above, the Directors consider the Acquisition to be a better option that is conducive to the start-up and expedient development of the FPR business of the Group. Based on the above, we concur with the view of the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole despite the loss-making track record of the Target Companies Group.

5. Consideration

Pursuant to the Agreement, the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell, the entire issued share capital of the Target Companies at the Consideration of HK$20 million, subject to adjustment, as to HK$18 million payable to Vendor 1 and HK$2 million payable to Vendor 2, in the following manner:

(i) HK$5 million, being 25% of the Consideration, as to HK$4.5 million payable to Vendor 1 and as to HK$0.5 million payable to Vendor 2, shall be payable upon signing of the Agreement as initial deposit and part payment (the "Initial Deposit") of the Consideration. The sum of HK$5 million previously paid by the Company on behalf of the Purchaser on 5 October 2016 under the MOU shall be treated as the Initial Deposit paid to the Vendors under the Agreement;

(ii) HK$5 million, being 25% of the Consideration, as to HK$4.5 million payable to Vendor 1 and as to HK$0.5 million payable to Vendor 2, shall be payable upon signing of the Agreement as further deposit and part payment (the "Further Deposit") of the Consideration; and

(iii) the remaining balance of HK$10 million of the Consideration, as to HK$9 million payable to Vendor 1 and as to HK$1 million payable to Vendor 2, shall be payable within two Business Days from the Completion Date.

The Consideration was determined after arm's length negotiation between the Purchaser and the Vendors with reference to the preliminary valuation of the Target Companies Group as at 30 September 2016 of approximately HK$51 million as appraised by an independent valuer on the bases that (i) the Purchaser will proceed with the Acquisition (subject to, among others, the approval of the Independent Shareholders) only if the Consideration (before adjustment) does not exceed the value of the Target Companies Group as appraised by the independent valuer appointed by the Company; and (ii) the target of the Acquisition is essentially the businesses of the Target Companies Group and the operating platform thereof, which should not carry net liabilities upon delivery of the same to the Purchaser upon Completion or, where there are Combined Net Liabilities (as defined in the section headed "6. Adjustment to the Consideration" below) at Completion, the Combined Net Liabilities should be adjusted to the Consideration on a dollar-for-dollar basis (reciprocal treatment applies in the case of Combined Net Assets (as defined in the section headed "6. Adjustment to the Consideration" below) for the consensus to the treatment for Combined Net Liabilities). Adopting the above bases, the Purchaser strived for favourable terms to the extent acceptable to the Vendors. A substantial part of the consolidated net liabilities of Target Company 1 and the net liabilities of Target Company 2 as at 30 September 2016 was attributable to the loans owed to a fellow subsidiary of Vendor 2. In line with the basis (ii) above, settlement of loans from related parties was made as a condition precedent of the Agreement. The Consideration will be funded by internal resources of the Group.

To assess the fairness and reasonableness of the Consideration, we have considered the valuation of the fair value of the Target Companies Group as at 30 September 2016 prepared by Roma Appraisals Limited (the "Valuer") and performed works as required under Note 1(d) to Rule 13.80 of the Listing Rules in respect of the valuation of the Target Companies Group, including interviewing with the Valuer as to its experiences in business valuation and its relationship with the parties to the Agreement, and discussing with the Valuer regarding its terms of engagement for the valuation, in particular to its scope of work. We noted that its scope of work was appropriate for it to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report. During the course of discussion with the Valuer, we noted that the Valuer has been providing valuation services to the Group since 2014. The Valuer confirmed us that apart from normal professional fees payable to it in connection with those valuation appointments, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates. The Valuer also confirmed us that it was not aware of any relationship or interest between it and the Company or any other parties that could be reasonably regarded as hindrance to its independence to act as an independent valuer for the Company.

We have reviewed the Valuation Report as set out in Appendix II to the Circular and discussed with the Valuer regarding the methodology, basis and assumptions adopted in arriving at the valuation of the Target Companies Group as at 30 September 2016. We noted that the valuation of the Target Companies Group was prepared in accordance with International Valuation Standards issued by the International Valuation Standards Council and income approach was adopted by the Valuer in arriving at the fair value of the Target Companies Group. As set out in the Valuation Report, the Valuer has considered three generally accepted valuation approaches, namely asset-based approach, market-based approach and income-based approach, in conducting the valuation. Given that the asset-based approach does not directly incorporate information regarding the future economic benefits contributed by the subject asset and there were insufficient relevant comparable companies or market transactions available in the marketplace for adopting the market-based approach, the Valuer considers that income-based approach is the most appropriate method in valuing the Target Companies Group as income approach focuses on the economic benefits generated by the income producing capability of an enterprise, and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits. Having considered the aforementioned limitations in applying the asset-based approach and market-based approach in assessing the value of the Target Companies Group, we concur with the Valuer that the income-based approach is an appropriate method in arriving at the valuation of the Target Companies Group.

We have reviewed, and discussed with the Directors and the Valuer, the underlying forecast of the Target Companies Group upon which the valuation has been made (the "Forecast") and have also reviewed the letter issued by Dakin Capital Limited, the financial adviser to the Company, and noted that Dakin Capital Limited is of the view that the Forecast, for which the Directors are solely responsible, has been made after due and careful enquiry by the Directors. The Directors have confirmed that the Forecast has been made after due and careful consideration with reference to the Target Companies Group's historical performance, latest operations and development and future development plan. We have also reviewed the letter issued by Ernst & Young regarding the calculation of the Forecast and noted that Ernst & Young is of the opinion that, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the assumptions adopted by the Directors. The letters relating to the Forecast are set out in Appendix I to the Circular.

We have also reviewed the underlying supporting documents, and discussed with the Valuer, the basis adopted by the Valuer in determining the discount rate and noted that the discount rate of approximately 14.5% adopted by the Valuer was determined based on the weighted average cost of capital of the Target Companies Group, which comprises the weighted cost of equity and weighted after-tax cost of debt. The cost of equity was calculated based on the capital asset pricing model, a commonly used model adopted in discounted cash flow valuation, with reference to (i) the yield rate of the Hong Kong government 10-year note; (ii) the Hong Kong market risk premium; and (iii) beta, which measures systematic risk of the comparable companies in comparison to the stock market, and adjusted for unsystematic risk by adding company specific risk premium and size premium. The cost of debt was determined with reference to Hong Kong prime rate. We have also discussed with the Valuer the selection criteria of, and reviewed, the comparable companies used for calculation of the beta and noted that all the comparable companies are listed on the Stock Exchange principally engaged in the magazine business in Hong Kong, which is similar to that of the Target Companies Group. We consider that the selection of comparable companies is reasonable and appropriate.

Since the shares of the Target Companies are not publicly traded and an active market for their shares does not exist, a discount for lack of marketability of 16.11% was applied in the valuation to discount for lack of ability of converting shares of the Target Companies Group into immediate cash. The Valuer considers a discount for lack of marketability of 16.11% is appropriate for the valuation of the Target Companies Group based on its professional judgement with reference to the 2016 edition of the FMV Restricted Stock Study Companion Guide, a guide assisting valuation experts in determining an appropriate discount for lack of marketability for calculating the value of closely held and restricted shares. Based on the results of the FMV Study, which had examined 736 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through September 2015, the median discount for lack of marketability, which represents the percentage difference between the private placement price per share and the market trading price per share, of the 736 transactions, excluding premiums, is 16.11%. Given the extensive data and time span of the FMV study and the similarity in the characteristics of lack of marketability of the shares of the Target Companies and the stocks under the study, we consider that the median discount rate of 16.11% as set out in the FMV Restricted Stock Study Companion Guide is a valid reference for determining the lack of marketability discount for the shares of the Target Companies.

Based on the above, we consider that the discount rate and lack of marketability discount applied to the valuation of the Target Companies Group are reasonable.

We have also reviewed the general assumptions adopted, such as no major changes in the current taxation laws, tax rates, interest rates, exchange rates, political, legal, economic or financial conditions in the localities in which the Target Companies Group operates, by the Valuer in the valuation of the Target Companies Group and noted that those assumptions are commonly adopted in valuation of a business and fair and reasonable for the purposes of assessing the fair value of the Target Companies Group. Given the valuation methodology applied by the Valuer is normal and usual among professional valuers and is in compliance with the International Valuation Standards, we consider that the methodology and basis for determining the valuation of the Target Companies Group by the Valuer is appropriate. In light of the above and the fact that no unusual matters had come to our attention that led us to believe that the valuation of the Target Companies Group was not prepared on a reasonable basis, we are of the opinion that the valuation of the Target Companies Group is a fair and reasonable benchmark for assessing the Consideration.

However, Independent Shareholders should note that the valuation relies substantially on the Forecast, the bases and assumptions of which are primarily based on current view with respect to business, financial, economic, market and other conditions, circumstances which may develop or change in the future and affect these projections. The successful achievement of the business performance and financial results of the Target Companies Group may be affected by a number of factors such as the economic conditions, the ability of the Target Companies Group to maintain its existing competitive advantages and the threat of competitors and new market entrants, etc.. There are no assurances that the business plan can be successfully implemented. Should there be any material adverse change in the operating environment of the Target Companies Group which result in its failure to implement any part of the business plan, the prospects of the Target Companies Group may be adversely affected.

Apart from referencing to the business valuation of the Target Companies Group performed by the Valuer, we have also tried to assess the value of the Target Companies Group independently by using the commonly adopted approaches in evaluation of a company, namely price-to-earnings approach, net assets approach and dividends approach. However, given that no dividends were declared by the Target Companies Group for the past two years, we consider that the dividends approach is not applicable for assessing the value of the Target Companies Group. Meanwhile, Target Group 1 recorded unaudited consolidated net losses for each of the two years ended 31 December 2015 and consolidated net liabilities as at 31 December 2015 while Target Company 2 recorded audited net losses for each of the two years ended 31 December 2015 and audited net liabilities as at 31 December 2015. Therefore, evaluation of the value of the Target Companies Group by reference to the historical price-to-earnings ratio and the price-to-book ratio are also impracticable.

Having considered that the comparison approaches are not applicable for assessing the value of the Target Companies Group while the fair value of the Target Companies Group as at 30 September 2016 was arrived at by an independent professional valuer in compliance with the International Valuation Standards on a reasonable basis, we consider that the approach of assessing the Consideration by reference to the fair value of the Target Companies Group as at 30 September 2016 is fair and reasonable. As the Consideration of HK$20 million represents a discount of approximately 61.8% to the fair value of the Target Companies Group as at 30 September 2016 of approximately HK$52.3 million, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms.

6. Adjustment to the Consideration

Pursuant to the Agreement, the Vendors shall prepare the Completion Accounts and deliver the same to the Purchaser within one month from the Completion Date. If:

(a) the aggregate of the net assets/liabilities of Target Company 2 and the consolidated net assets/liabilities of Target Group 1 immediately before Completion as at the Completion Date as stated in the Completion Accounts represents net assets on a combined basis ("Combined Net Assets"), the amount of Combined Net Assets shall be payable by the Purchaser to Vendor 1 (which collects the sum for itself and/or as the agent of Vendor 2 (as the case may be)) on a dollar-for-dollar basis; or

(b) the aggregate of the net assets/liabilities of Target Company 2 and the consolidated net assets/liabilities of Target Group 1 immediately before Completion as at the Completion Date as stated in the Completion Accounts represents net liabilities on a combined basis ("Combined Net Liabilities"), the amount of the Combined Net Liabilities shall be payable by the Vendors, jointly and severally, to the Purchaser on a dollar-for-dollar basis.

Under the Agreement, for administrative convenience, the Purchaser shall not be liable for the payment of the Combined Net Assets and the Vendors shall not be liable for the payment of the Combined Net Liabilities (as the case may be) if the amount of the Combined Net Assets or Combined Net Liabilities (whichever being applicable) is not more than HK$100,000. The Combined Net Assets or the Combined Net Liabilities (as the case may be) shall be settled in cash or cashier order or shall be paid by the Purchaser or the Vendors (as the case may be) by transferring the amount payable to a bank account designated by the Vendors or the Purchaser (as the case may be) or in other manners as agreed by the Vendors and the Purchaser within 10 Business Days from the date on which the Completion Accounts are delivered to the Purchaser.

We have discussed with the management of the Company the rationale behind the adjustment to the Consideration and were given to understand that in determining the Consideration, the Purchaser and the Vendors have assumed that each of the company of the Target Companies Group will have zero net assets value at the Completion Date. Therefore, the Vendors have to compensate the Purchaser for the additional liabilities incurred during the period from 30 September 2016 to the Completion Date on a dollar-for-dollar basis if net liabilities are recorded by the Target Companies Group as at the Completion Date. On the other hand, the Purchaser has to compensate the Vendors for the additional assets left in the Target Companies Group if the Target Companies Group has net assets as at the Completion Date. Based on the above, we consider that the adjustment to the Consideration is commercially justifiable.

7. Financial effects of the Acquisition

Upon Completion, the Target Companies will become wholly-owned subsidiaries of the Company. The financial effects of the Acquisition on the Group's earnings, cashflow, net asset value and gearing are set out below. However, it should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group would be upon Completion.

7.1 Earnings

With reference to the financial information of the Target Companies Group as set out in the Letter from the Board, Target Group 1 and Target Company 2 recorded net consolidated loss and net loss for the year ended 31 December 2015 respectively. Therefore, had the Acquisition been completed on 1 January 2015, the loss of the Group attributable to equity holders of the Company for the year ended 31 December 2015 would have increased.

7.2 Cashflow

The Consideration in the amount of HK$20 million shall be paid in cash by the Purchaser to the Vendors, of which HK$10 million has been paid as deposit and the balance of HK$10 million shall be paid within two Business Days from the Completion Date. Therefore, the Acquisition shall give rise to a cash outflow of HK$20 million by the Group.

7.3 Net asset value

Had the Acquisition been completed on 31 December 2015 and each of the net assets value of Target Company 2 and the consolidated net assets value of the Target Group 1 been adjusted to HK$0 as at the Completion Date in accordance with the Agreement, the decrease in cash of the Group resulting from the Group would have decreased as a result of the cash payment for the Consideration would have been netted off by the increase in intangible assets (including goodwill) while same amount of total assets and total liabilities of the Target Companies Group would be consolidated into the accounts of the Company, a significant change in the net asset value of the Group upon completion of the Acquisition is not expected.

7.4 Gearing

Had the Acquisition been completed on 31 December 2015 and each of the net assets value of Target Company 2 and the consolidated net assets value of the Target Group 1 been adjusted to HK$0 as at the Completion Date in accordance with the Agreement, the consolidation of the accounts of the Target Companies Group into the Company's accounts would lead to an increase in total assets of the Group with the corresponding increase in the total liabilities by the same amount. As such, the gearing of the Group, as expressed in the ratio of total liabilities to total assets, is not expected to have a material change as the amounts of total assets and total liabilities of the Target Companies Group as at 31 December 2015 (excluding the related party loans, the settlement thereof forms part of the conditions precedent of the Acquisition) were relatively small as compared to the amounts of total assets and total liabilities of the Group as at 31 December 2015 respectively.

Based on the above analysis, we noted that the Acquisition would have negative effects on the earnings and cash position but insignificant impact on the net assets value and gearing of the Group. However, having considered the reasons and benefits of the Acquisition and the fairness and reasonableness of the Consideration, we are of the view that the adverse financial impacts of the Acquisition to the Group are commercially justifiable and the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons stated above, we consider that the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole although the Acquisition is not conducted in the ordinary and usual course of business of the Company. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favor of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Hercules Capital Limited

Louis Koo
Managing Director

Amilia Tsang
Director

Notes:

1. Mr. Louis Koo is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 20 years of experience in investment banking and corporate finance.

2. Ms. Amilia Tsang is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 15 years of experience in corporate finance, investment and corporate management.

The following is the text of a letter received from the Company's reporting accountants, Ernst & Young, for inclusion in this circular.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

29 December 2016

The Board of Directors
South China Financial Holdings Limited
28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Dear Sirs,

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF MEDIA BONUS LIMITED AND ITS WHOLLY-OWNED SUBSIDIARIES AND GOLDEN WAYS LIMITED

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 29 December 2016 prepared by Roma Appraisals Limited in respect of Media Bonus Limited and its wholly-owned subsidiaries and Golden Ways Limited (the "**Target Companies Group**") as at 30 September 2016 is based. The valuation is set out in the circular of South China Financial Holdings Limited (the "**Company**") dated 29 December 2016 (the "**Circular**") in connection with the acquisition of the Target Companies Group. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

DIRECTORS' RESPONSIBILITIES

The directors of the Company (the "**Directors**") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed "Major Assumptions" included in Appendix II — Valuation Report to the Circular.

OUR INDEPENDENCE AND QUALITY CONTROL

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

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Companies Group. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

OPINION

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter received from the Company's financial adviser, Dakin Capital Limited, for inclusion in this circular.

德健融資有限公司
DAKIN CAPITAL LIMITED

29 December 2016

South China Financial Holdings Limited
28/F., Bank of China Tower
1 Garden Road
Central, Hong Kong
Attention: The Board of Directors

Dear Sirs,

We refer to the discounted cash flow forecasts underlying the business valuation (the "**Valuation**") prepared by Roma Appraisals Limited (the "**Valuer**") in relation to the appraisal of the valuation of the Target Companies Group as at 30 September 2016. The Valuation is regarded as profit forecast under Rule 14.61 of the Listing Rules. The details of the Valuation are contained in the circular of the Company dated 29 December 2016 (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have reviewed the forecasts upon which the Valuation has been made and have discussed with you and the Valuer the information and documents provided by you which formed part of the basis and assumptions upon which the forecasts have been prepared. We have also considered the letter from Ernst & Young dated 29 December 2016 addressed to you as set out in Appendix I to the Circular regarding the calculations upon which the forecasts have been made. We have noted that no accounting policies of the Company have been adopted in the preparation of the Valuation as the Valuation relates only to cash flows.

On the basis of the foregoing, we are satisfied that the forecasts underlying the Valuation, for which you as the Directors of the Company are solely responsible, have been made by you after due and careful enquiry.

Yours faithfully,
For and on behalf of
Dakin Capital Limited
Leung Kit Ming
Managing Director

The following is the text of the Valuation Report received from Roma Appraisals Limited, an independent valuer, for inclusion in this circular.

ROMA

Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@romagroup.com
http://www.romagroup.com

29 December 2016

South China Financial Holdings Limited
28th Floor,
Bank of China Tower,
1 Garden Road,
Central,
Hong Kong

Case Ref: KY/BV3762/OCT16

Dear Sir/Madam,

Re: Valuation of 100% Equity Interest in Media Bonus Limited and Golden Ways Limited

In accordance with the instructions from South China Financial Holdings Limited (hereinafter referred to as the "**Company**") to us to conduct a business valuation on 100% equity interest in Media Bonus Limited ("**Target Company 1**") and its subsidiaries (together referred to as "**Target Group 1**") and Golden Ways Limited ("**Target Company 2**", together with Target Company 1, the "**Target Companies Group**"), we are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing you with our opinion of the market values of 100% equity interest in Target Companies Group as at 30 September 2016 (hereinafter referred to as the "**Date of Valuation**").

This report states the purpose of valuation, scope of work, economic and industry overviews, an overview of the Target Companies Group, basis of valuation, investigation and analysis, valuation methodology, major assumptions, information reviewed, limiting conditions, remarks and opinion of values.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Roma Appraisals Limited (hereinafter referred to as "**Roma Appraisals**") acknowledges that this report may be made available to the Company for public documentation purpose only.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. SCOPE OF WORK

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

In preparing this report, we have had discussions with the Management in relation to the development and prospect of the magazine industry in Hong Kong, and the development, operations and other relevant information of the Target Companies Group. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Target Companies Group provided to us by the Management and have considered such information and data as attainable and reasonable.

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

We do not express an opinion as to whether the actual results of the business operations of the Target Companies Group will approximate those projected because assumptions regarding future events by their natures are not capable of independent substantiation.

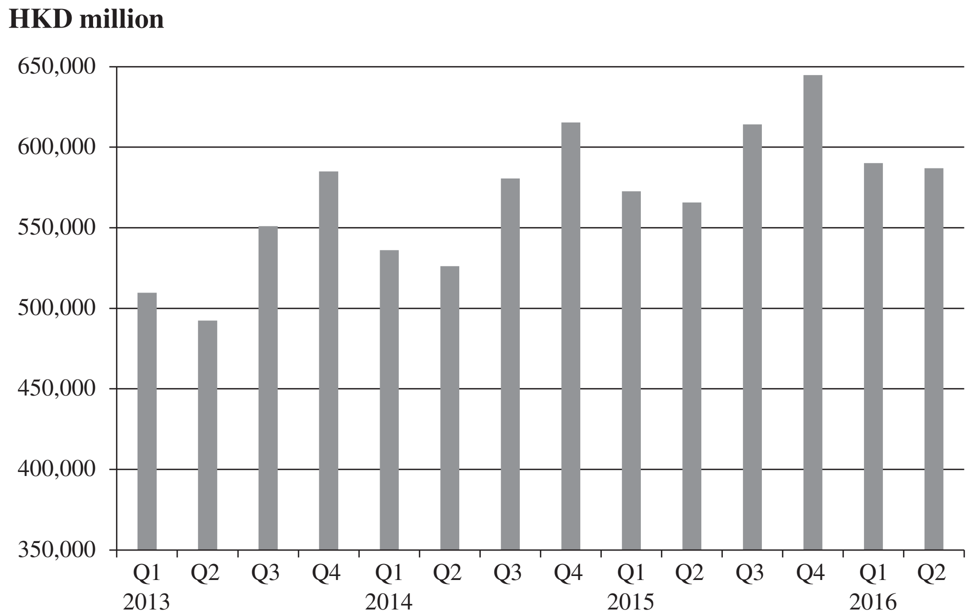
In applying these projections to the valuation of the Target Companies Group, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

3. ECONOMIC OVERVIEW

3.1 Overview of the Economy in Hong Kong

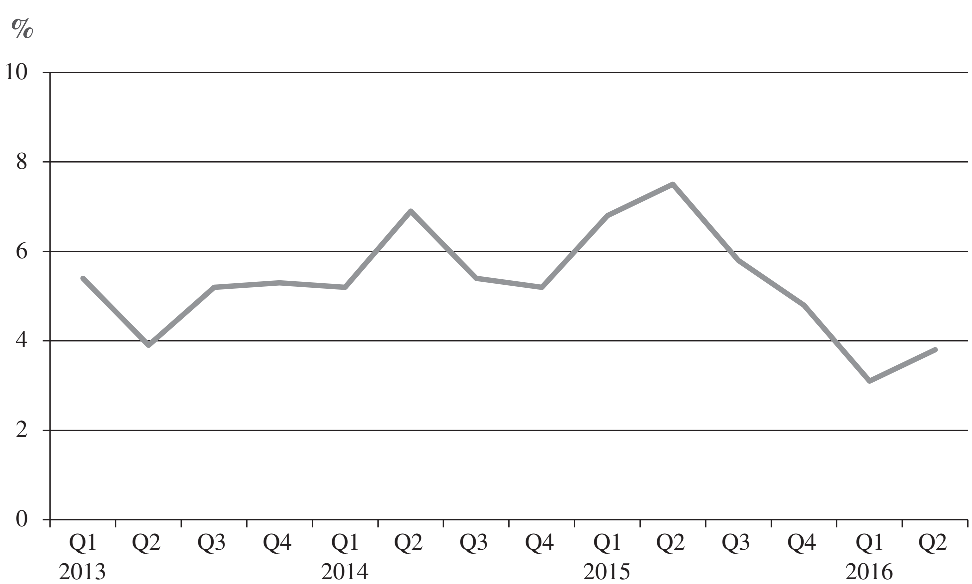
Hong Kong has long been a free market economy highly dependent on international trade and finance. For this reason, it was heavily exposed to the global economic turmoil which began in 2008 and resulted in a sharp drop of the nominal gross domestic product ("**GDP**") of Hong Kong in the first quarter of 2009. Since then, the economy of Hong Kong has been recovering. The GDP of Hong Kong in the second quarter of 2016 was HKD586,894 million, a 3.76% increase over the same quarter of 2015. Figure 1 and figure 2 illustrate the trend of Hong Kong's quarterly nominal GDP over the past few years.

Figure 1 — Hong Kong's Quarterly Nominal Gross Domestic Product from the First Quarter of 2013 to the Second Quarter of 2016



Source: Bloomberg

Figure 2 — Year Over Year Percentage Change of Hong Kong's Quarterly Nominal Gross Domestic Product from the First Quarter of 2013 to the Second Quarter of 2016

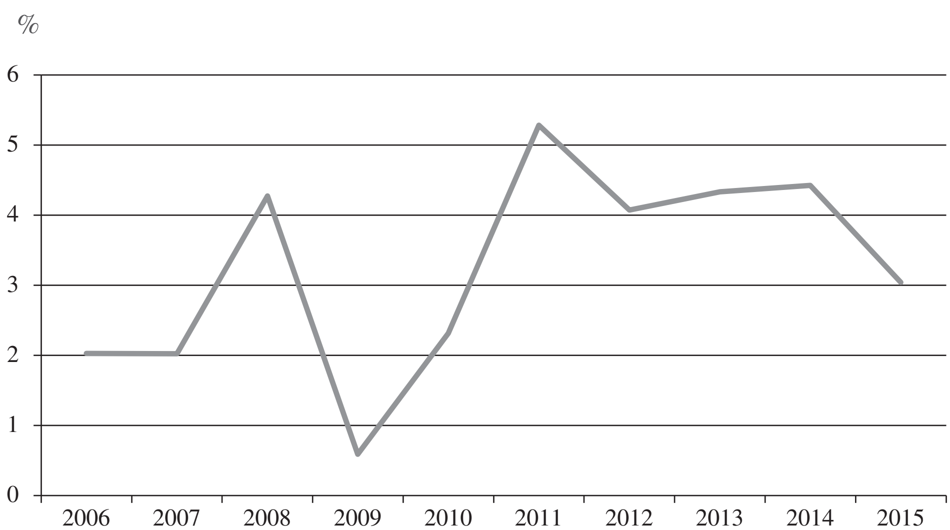


Source: Bloomberg

3.2 Inflation in Hong Kong

The inflation rate in Hong Kong was volatile in the past ten years. According to the International Monetary Fund ("**IMF**"), the average inflation rate in Hong Kong was negative in 2004. Since then the inflation rate was on an uptrend and reached 4.3% in 2008. Due to the global financial crisis, the inflation rate dropped in 2009. The inflation rate rebounded strongly both in 2010 and 2011, mainly caused by a sharp rise in the commodity prices in China. The inflation started to fall in 2014 and reached 3.0% in 2015. The IMF forecasted that the inflation rate in Hong Kong would be 2.5% in 2016, and then increase gradually to 3.0% from 2017 to 2021. Figure 3 shows the historical trend of Hong Kong's average inflation rate from 2006 to 2015.

Figure 3 — Hong Kong's Average Inflation Rate from 2006 to 2015



Source: International Monetary Fund

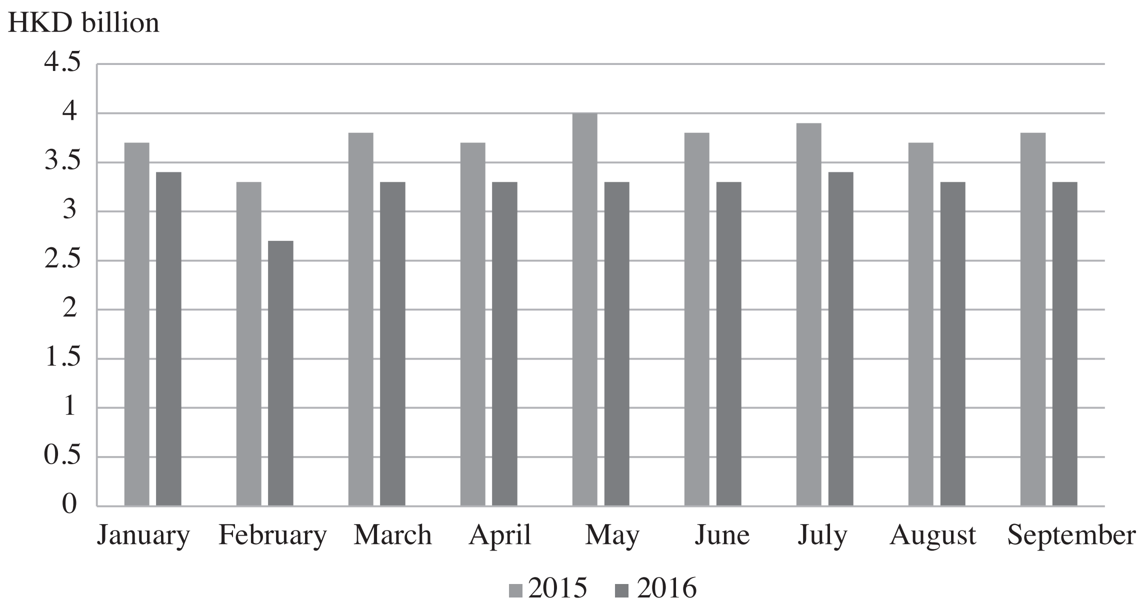
4. INDUSTRY OVERVIEW

According to the publishing industry overview published by the Hong Kong Trade Development Council ("**HKTDC**"), Hong Kong is a regional publishing centre and many international magazines publishers have their regional offices located there. There are 4,085 establishments and 35,732 persons engaged in the industry as at June 2015 according to the overview. The number of registered newspapers and periodicals are 50 and 638 respectively as at 28 October 2016, according to the website of Office for Film, Newspaper and Article Administration in Hong Kong ("**OFNAA**").

Advertising income is one of the major income for magazines publishing companies. admanGo is an industry-recognized advertising monitoring company that monitors advertisements, together with advertising spending, in Hong Kong every day, covering 22 media types such as television, print, outdoor, digital and mobile. According to the quarterly reports from admanGo, the total advertising spending in Hong Kong was in a decreasing trend.

Compare with the same month in 2015, the advertising spending in January to September 2016 was experiencing a year-over-year decline. Figure 4 showed the advertising spending from January to September in 2015 and 2016.

Figure 4 — Advertising Spending from January to September in 2015 and 2016



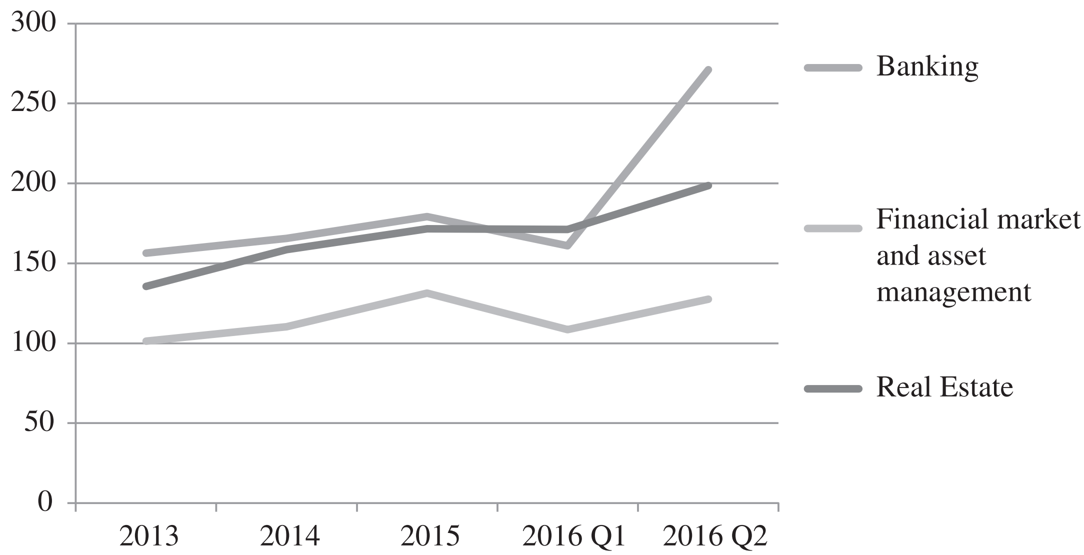
Source: admanGo

On top of the traditional run of page advertising income, the Target Companies Group also generates revenues from, among others, premium media promotion projects, events and financial public relation ("**FPR**") projects, which are not tracked as advertising spending on magazines by admanGo. The run of page advertising income of the Target Companies Group includes event sponsorship.

In the nine months ended 30 September 2016, revenues from the advertisers in the finance and property sectors accounted for a significant portion of the total revenue of the Target Companies Group. It was expected that revenues from the advertisers in such sectors will continue to account for a significant portion of the total revenue of the Target Companies Group in the foreseeable future in the absence of unfavorable unforeseen event. Further, the issuers, both existing and prospective, are, among others, the key target customers of the project sales of the Target Companies Group, in particular the FPR projects. It was also expected that the revenue from project sales will continue to grow in the upcoming years on the back of Hong Kong sustaining its position as a top fundraising marketplace, particularly for initial public offerings ("**IPO**"), and a leading stock market around the globe in the foreseeable future.

With reference to the business receipts indices published by the Census and Statistics Department of Hong Kong, the banking sector and the financial market and asset management sector (excluding banking) were in an upward trend. The indices for banking and financial market and assets management sectors increased from 156.3 in 2013 to 271.1 in second quarter of 2016 and 101.3 in 2013 to 127.5 in the second quarter of 2016 respectively. The real estate sector increased from 135.6 in 2013 to 198.7 in the second quarter of 2016. Figure 5 illustrates the business receipts indices for the aforementioned sectors from 2013 to the second quarter of 2016.

Figure 5 — Business Receipts Indices from 2013 to the Second Quarter of 2016



Source: Census and Statistics Department of Hong Kong

Note: Quarterly average of 2008 was chosen as the base year (normalized at 100).

According to the Statistics on Private Housing Supply in Primary Market (as at 30 September 2016) published by the Transport and Housing Bureau of the Government of Hong Kong, the expected supply of units which are available in Hong Kong private housing primary market in the coming three to four years is approximately 93,000 units. The expected supply of housing units exceeded the average number of completion of construction of private residential units of 11,130 units per annum in the latest ten years ended 31 December 2015.

According to Hong Kong Trade Development Council, Hong Kong stock market was the third largest in Asia and the seventh largest around the globe as at September 2016. A total of 1,930 companies were listed on the Stock Exchange of Hong Kong Limited as at 30 September 2016, with a total capitalization of around HKD25,595 billion. In addition, Hong Kong was tipped to rank as the world's largest IPO market in 2016 with reference to China and Hong Kong IPO Markets Update published by KPMG in December 2016. Different from other major stock markets, Hong Kong's stock market had a sizable direct retail participation that accounts for 26% of trading in the stock market and 20% of trading in the derivatives market.

For the 11 months ended 30 November 2016, there were 109 companies newly listed on the main board or GEM board of the Stock Exchange of Hong Kong Limited and the funds raised in such initial public offerings in aggregate exceeded HKD178 billion. The said performance is ahead of the Shanghai Stock Exchange and the New York Stock Exchange in terms of both the number of companies listed and the amount of funds raised. There was a general market expectation that the Stock Exchange of Hong Kong Limited will remain in a leading position in initial public offerings among the stock exchanges in the major international capital markets in 2017. Figure 6 demonstrates highlights of the Hong Kong stock market from 2009 to the third quarter of 2016.

Figure 6 — Highlights of the Hong Kong Stock Market from 2009 to the Third Quarter of 2016

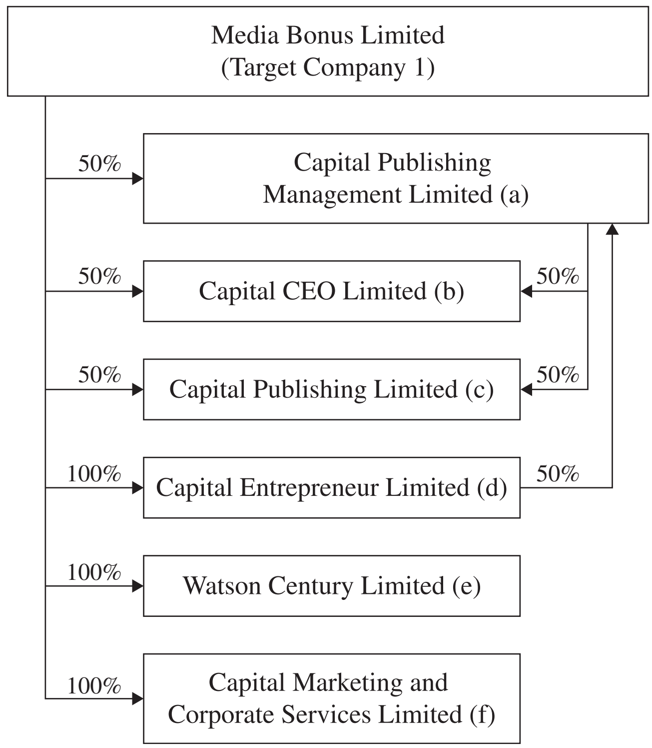
	Main Board		Growth Enterprise Market ("GEM")	
As at end	Number of Listed Companies	Market Capitalization *(HKD billion)*	Number of Listed Companies	Market Capitalization *(HKD billion)*
2009	1,145	17,769	174	105
2010	1,244	20,942	169	135
2011	1,326	17,453	170	85
2012	1,368	21,872	179	78
2013	1,451	23,909	192	134
2014	1,548	26,534	204	208
2015	1,644	24,426	222	258
2016 Q3	1,687	25,318	243	278

Source: Securities and Futures Commission of Hong Kong

According to the Hong Kong and China IPO Market 2016 Review and 2017 Outlook published by Deloitte Touche Tohmatsu Limited, there will be approximately 8% increase in the expected number of IPO in 2017.

5. OVERVIEW OF THE TARGET COMPANIES GROUP

Target Company 1, incorporated in the British Virgin Islands, directly and indirectly holds a number of subsidiaries and its group structure is shown as follows. Target Company 2, incorporated in Hong Kong, publishes the magazine CAPITAL Weekly and CAPITAL Money. It does not hold any subsidiary according to the Management.



Notes:

(a) An investment holding company incorporated in Hong Kong.

(b) An operating subsidiary incorporated in Hong Kong which publishes the magazine CAPITAL CEO.

(c) An operating subsidiary incorporated in Hong Kong which publishes the magazine CAPITAL.

(d) An operating subsidiary incorporated in Hong Kong which publishes the magazine CAPITAL Entrepreneur.

(e) A dormant subsidiary incorporated in Hong Kong.

(f) A dormant subsidiary incorporated in Hong Kong.

The Target Companies Group, through theirs subsidiaries, publish magazines in Hong Kong with distinctive editorial content and direction caters various readers' needs. The Target Companies Group offer wide range of editorial content, from micro- to macro-economic and political point of view from Hong Kong to Greater China, short-term to long-term investment intelligent, as well as showcasing luxurious lifestyle.

6. BASIS OF VALUATION

Our valuation is based on going concern premise and conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2011, **market value** is defined as "the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

7. INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Target Companies Group. In addition, we have made relevant inquiries and obtained further information and statistical figures related to the magazine industry in Hong Kong as we considered necessary for the purpose of the valuation.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Target Companies Group provided to us by the Management and have considered such information and data as attainable and reasonable.

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

- The natures and prospects of the Target Companies Group;
- The financial conditions of the Target Companies Group;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- Relevant licenses and agreements;
- The business risks of the Target Companies Group such as the ability in maintaining competent technical and professional personnel; and
- Investment returns and market transactions of entities engaged in similar lines of business.

8. VALUATION METHODOLOGY

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

8.1 Market-Based Approach

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

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

8.2 Income-Based Approach

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

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

8.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("**equity and long term debt**"). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity ("**equity**") and investors who lend money to the business entity ("**debt**"). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

8.4 Business Valuation

In the process of valuing the Target Companies Group, we have taken into account the operations and financial information of the Target Companies Group and conducted discussions with the Management to understand the status and prospects of the Target

Companies Group and the magazine industry they are participating. Also, we have considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches.

The Market-Based Approach was not adopted in this case because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were not readily available. The Asset-Based Approach was also not adopted because it could not capture the future earning potential and thus market values of the Target Companies Group. We have therefore considered the adoption of the Income-Based Approach in arriving at the market values of the Target Companies Group.

8.4.1 Discounted Cash Flow

Under the Income-Based Approach, we have adopted the discounted cash flow ("**DCF**") method, which is based on a simple reversal calculation to restate all future cash flows in present terms. The expected free cash flow for each year was determined as follows:

Expected Free Cash Flow = Net Profit + Depreciation – Change in Net Working Capital – Capital Expenditure

The present value of the expected free cash flows was calculated as follows:

$$PVCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \cdots + \frac{CF_n}{(1+r)^n}$$

In which
PVCF = Present value of the expected free cash flows;
CF = Expected free cash flow;
r = Discount rate; and
n = Number of years.

To adopt this method, we obtained the weighted average cost of capital ("**WACC**") of the Target Companies Group as a basic discount rate. WACC of the Target Companies Group is the minimum required return that the Target Companies Group must earn to satisfy their various capital providers including shareholders and debt holders. WACC calculation takes into account the relative weights of debt and equity. It is computed using the formula below:

$$WACC = W_e \times R_e + W_d \times R_d \times (1\text{-}T_c)$$

In which
R_e = *Cost of equity;*
R_d = *Cost of debt;*
W_e = *Weight of equity value to enterprise value;*
W_d = *Weight of debt value to enterprise value; and*
T_c = *Corporate tax rate.*

8.4.2 Cost of Debt

The cost of debt was determined by the expected borrowing rates of the Target Companies Group. Since the interest expenses paid on debts are tax-deductible for the Target Companies Group, the cost of the Target Companies Group to get debt funds is less than the required rate of return of the suppliers of the debt capital. The after-tax cost of debt was calculated by multiplying one minus the corporate tax rate by the cost of debt.

8.4.3 Cost of Equity

The cost of equity was determined using the Capital Asset Pricing Model ("**CAPM**"), which describes the relationship between the risk of the Target Companies Group and expected return to investors. It is calculated by the following formula:

$$R_e = R_f + \beta \times MRP + ORP$$

In which
R_e = *Cost of equity;*
R_f = *Risk-free rate;*
β = *Beta coefficient;*
MRP = *Market Risk Premium; and*
ORP = *Other Risk Premium.*

8.4.4 Discount Rate

In the process of determining the WACC, we adopted several listed companies with business scopes and operations similar to those of the Target Companies Group as comparable companies. The comparable companies were selected mainly with reference to the following selection criteria:

- The companies are principally engaged in the magazine businesses in Hong Kong;
- The companies have sufficient listing and operating histories; and
- The financial information of the companies is available to the public.

Details of the comparable companies adopted were listed as follows:

Company Name	Stock Code	Listing Location	Business Description
Oriental Press Group Limited	18.HK	Hong Kong	Oriental Press Group Limited, through its subsidiaries, publishes newspapers and magazines. The company also invests in properties and provides building management, finance services, and human resources services.
Sing Tao News Corporation Limited	1105.HK	Hong Kong	Sing Tao News Corporation Limited, through its subsidiaries, publishes newspapers, magazines, books, recruitment media and multimedia contents, and provides print media distribution, media and content services. The company also provides corporate training, broadband content and distribution, e-learning and operates trading.
Next Digital Limited	282.HK	Hong Kong	Next Digital Limited is a media company. The company provides newspaper, magazines, and web and mobile content. The company predominately serves customers in Hong Kong and Taiwan.

Company Name	Stock Code	Listing Location	Business Description
Hong Kong Economic Times Holdings Limited	423.HK	Hong Kong	Hong Kong Economic Times Holdings Limited, through its subsidiaries, publishes the Hong Kong Economic Times, magazines, books, and other publications. The company also provides real time financial information, and operates recruitment advertising and training businesses.
One Media Group Limited	426.HK	Hong Kong	One Media Group Limited is a Chinese-language lifestyle media group. The company publishes, markets, and distributes through third-party distributors, Chinese-language lifestyle magazines.

Source: Bloomberg

Below is the summary of the key parameters of the WACC of the Target Companies Group adopted as at the Date of Valuation:

	Key Parameters	As at 30 September 2016
(a)	Risk-free Rate	1.06%
(b)	Market Expected Return	10.69%
(c)	Market Risk Premium	9.63%
(d)	Beta Coefficient	0.51
(e)	Size Premium	3.58%
(f)	Firm Specific Risk Premium	5.00%
(g)	Cost of Equity	14.60%
(h)	Cost of Debt	5.25%
(i)	Weight of Equity Value to Enterprise Value	99.34%
(j)	Weight of Debt Value to Enterprise Value	0.66%
(k)	Corporate Tax Rate	16.50%
	WACC (Rounded)	**14.50%**

Notes:

(a) The risk-free rate adopted was the yield rate of the Hong Kong government 10-year note as at the Date of Valuation as extracted from Bloomberg.

(b) The market expected return adopted was the 10-year market return in Hong Kong stock market as at the Date of Valuation as extracted and sourced from Bloomberg.

(c) The market risk premium adopted was the difference between the market expected return and the risk-free rate adopted.

(d) The beta coefficient adopted was the median adjusted beta of the comparable companies as sourced from Bloomberg.

(e) The size premium adopted was the size premium for micro-cap companies with reference to the size premium study published by Duff & Phelps, LLC. This is a size premium study conducted by Duff & Phelps, LLC to analyze the relationship between size premium and company size on companies listed in the New York Stock Exchange, American Stock Exchange and National Association of Securities Dealers Automated Quotations. Duff & Phelps, LLC is a global valuation and corporate finance advisor with expertise in complex valuation, dispute consulting, merger and acquisition and restructuring. According to the size premium study, size premium for micro-cap companies with market capitalization of less than USD448 million was estimated to be 3.58%. Since the Target Companies Group have market capitalization of less than USD448 million, we have applied 3.58% as the size premium on top of CAPM in arriving at their cost of equity. The study performed by Duff & Phelps in determining the size premium was adopted due to the lack of similar studies in other countries. We have looked for reliable studies for companies in Hong Kong but none can be found. In addition, despite all companies in the database of the study were traded on the US exchanges, since there is no conclusive evidence that suggests any relationship between size premium and country of domicile, we considered that such study would represent the best estimate for the size premium.

(f) The firm specific risk premium adopted was to reflect the business risks of Target Companies Group, which included the future competition within the magazine industry in Hong Kong (represented by 2% premium) and the uncertainty in the financial forecast (represented by 3% premium). It was determined based on our experience and professional judgments after discussing the current status and development of the Target Companies Group with the Management. It may be facing competition susceptible to factors such as price, brand recognition, availability and selection, which may lead to adverse impact on its profit margins and results of operations. According to the latest unaudited financial statements of the Target Companies Group as at the Date of Valuation, the Target Companies Group was aggregately making a net loss of HKD3.4 million from January 2016 to September 2016 and the newly established businesses were still in a relatively preliminary operational stage, the Target Companies Group may need effort and time to turn the loss into profit. There is also uncertainty in financial forecast as insufficient track record for newly established businesses of Target Companies Group was available in which the assumptions estimated by the Management in running the business may not be achieved as expected.

(g) The cost of equity was determined based on CAPM.

(h) The cost of debt adopted was the Hong Kong prime rate as sourced from Bloomberg.

(i) The weight of equity value to enterprise value adopted was derived from the median debt-to-equity ratio of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

(j) The weight of debt value to enterprise value adopted was derived from the median debt-to-equity ratio of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

(k) The corporate tax rate adopted was the corporate tax rate in Hong Kong.

Hence, we adopted the WACC of 14.50% as the discount rate of the Target Companies Group as at the Date of Valuation.

8.4.5 Market Value of the Target Companies Group

In arriving at the market value of 100% equity interest of Target Group 1, the outstanding balances of net cash and non-operating assets/liabilities for Media Bonus Limited, Capital Publishing Management Limited, Capital CEO Limited, Capital Publishing Limited, Capital Entrepreneur Limited, Watson Century Limited and Capital Marketing and Corporate Services Limited were added to the discounted cash flows of Target Group 1 before the adjustment for marketability discount.

In arriving at the market value of 100% equity interest of Target Company 2, the outstanding balance of its net cash and non-operating assets/liabilities were added to its discounted cash flows before the adjustment for marketability discount. Non-operating assets and liabilities are the other receivables and other payables of the Target Companies Group as at the Date of Valuation. According to the latest unaudited financial statements of the Target Companies Group as at the Date of Valuation, there were net cash of HKD1,678,000, other receivables of HKD364,000 and other payables of HKD2,782,000 in Target Group 1 and its subsidiaries while there were net cash of approximately HKD5,000 and other payables of HKD977,000 in Target Company 2. Above figures are approximate values and rounded to nearest thousand Hong Kong dollars.

8.4.6 Marketability Discount

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the 2016 edition of the FMV Restricted Stock Study Companion Guide (the "**Guide**") by FMV Opinions, Inc., one of the national preeminent firms offering a broad range of financial advisory services to private and public companies, a marketability discount of 16.11% was adopted in arriving at the market values of the Target Companies Group as at the Date of Valuation since the Target Companies Group were not traded in any exchange or public market. According to the Guide, the purpose of it is to provide the information necessary to understand the theoretical foundation for the marketability discount and be fully informed regarding the data underlying. The Guide shows a difference in share value of 16.11% median between listed shares and unlisted share. Since the Target Companies were unlisted companies, we adopted the discount and applied it to the Target Companies. Marketability discount of 16.11% represents the best statistical estimate in considering marketability discount for unlisted companies.

The market value is calculated by the following formula:

Market Value of 100% Equity Value after Marketability Discount	=	Market Value of 100% Equity Value before Marketability Discount	X	(1– Marketability Discount)

9. MAJOR ASSUMPTIONS

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

- The valuation was mainly based on the projections of the future cash flows as provided by the management ("**Management**") of Target Group 1 and Target Company 2 (together with Target Group 1, the "**Target Companies Group**"). The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- The unaudited financial statements of the Target Companies Group as at 30 September 2016 can reasonably represent their financial positions since audited financial accounts as at 30 September 2016 were not available;

- The related company current accounts of the consolidated management accounts of the Target Companies Group as at 30 September 2016 would be waived as advised by the Management;

- Compared to similar interest in public companies, ownership interest is not readily marketable for private companies. Hence, a marketability discount of 16.11% was applied to the valuation result. The marketability discount was adopted by making reference to the study in the FMV Restricted Stock Study Companion Guide published by FMV Opinions, Inc. in 2016;

- Discount rates of 14.50% were adopted for the Target Companies Group, which was the estimated weighted average cost of capital of the Target Companies Group with reference to comparable companies engaged in similar businesses;

- Working capital projection was estimated with reference to working capital turnover days as advised by the Management;

- The businesses of the Target Companies Group will be operated and developed as planned;

- All relevant legal approvals and business certificates or licenses to operate the businesses in the localities in which the Target Companies Group operate or intend to operate would be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Target Companies Group operate, and the Target Companies Group will retain competent management, key personnel and technical staff to support their ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Target Companies Group operate or intend to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Companies Group operate or intend to operate, which would affect the revenues attributable to and profitability of the Target Companies Group; and

- Interest rates and exchange rates in the localities for the operations of the Target Companies Group will not differ materially from those presently prevailing.

10. INFORMATION REVIEWED

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

- The unaudited management accounts of the Target Companies Group dated 30 September 2016;
- Financial forecasts and of the Target Companies Group;
- Business licenses of the Target Companies Group;
- Market trends of the magazine industry in Hong Kong, which were disclosed in the industry overview under section 4 of this report; and
- General descriptions in relation to the Target Companies Group.

We have discussed the details with the Management. We have also conducted research from various sources to verify the reasonableness and fairness of information provided and we believe that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion of values.

11. LIMITING CONDITIONS

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

We would particularly point out that our valuation was based on the information such as the company background, business natures and projections of the Target Companies Group provided to us.

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

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

We assumed that the Management is competent and perform duties under the company regulation. Also, ownerships of the Target Companies Group were in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market values of the Target Companies Group.

We have not investigated the titles to or any legal liabilities of the Target Companies Group and have assumed no responsibility for the titles to the Target Companies Group appraised.

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

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

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

12. REMARKS

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

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Companies Group and their associated companies, or the values reported herein.

13. OPINION OF VALUES

Based on the investigation and analysis stated above and on the valuation method employed, the market values of 100% equity interest in the Target Companies Group as at the Date of Valuation, in our opinion, were reasonably stated as follows:

Market Values of the Target Companies Group as at 30 September 2016

	HKD
Media Bonus Limited	49,000,000
Golden Ways Limited	3,300,000

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

1 FORECAST ASSUMPTIONS FOR TARGET GROUP 1

The following assumptions were estimated by the Management.

1.1 Business Model

Target Group 1, through its subsidiaries, namely Capital Publishing Limited, Capital CEO Limited and Capital Entrepreneur Limited, publishes the magazines CAPITAL, CAPITAL CEO and CAPITAL Entrepreneur in Hong Kong. The primary revenue sources comprise of circulation income, subscription income, net advertising income. Net advertising income refers to the revenue from run of page advertising net digital income, website banner advertisement, events, premium media promotion projects and financial public relation ("FPR") projects.

The run of page revenue as shown in the forecast encompasses revenue from traditional media advertisement, advertisement on digital platforms and event sponsorship.

Premium media promotion projects focus on offering of prominent position in the publications of the members of the Target Companies Group for advertising and promotion purposes. FPR projects are customized packaged services encompass, among others, media planning, media buying, creative and marketing campaign planning, corporate communication strategies development, planning for and preparation of corporate identity promotion press releases and event management services, targeting the corporate clients, in particular the listed companies, IPO candidates and sizable corporations.

As advised by the Management, the development of Target Group 1 would become stable from 2021 onwards. Long term projected inflation rate in Hong Kong of 3% estimated by the International Monetary Fund as sourced from Bloomberg was adopted for the projection from 2021 onwards.

1.2 Profit and Loss Forecast

Year Ended 31 December		1 Oct–31 Dec 2016	2017	2018	2019	2020	2021	Terminal Year
Revenue								
Capital Publishing Limited	*HKD'000*	3,422	12,312	13,159	14,372	15,114	15,998	16,478
Capital CEO Limited	*HKD'000*	1,097	3,647	4,920	5,777	6,078	6,394	6,585
Capital Entrepreneur Limited	*HKD'000*	1,097	4,347	4,920	5,777	6,078	6,394	6,585
		5,615	20,305	22,999	25,926	27,269	28,785	29,649
Cost of sales								
Capital Publishing Limited	*HKD'000*	838	3,421	3,489	3,557	3,627	3,699	3,809
Capital CEO Limited	*HKD'000*	286	645	657	669	681	694	714
Capital Entrepreneur Limited	*HKD'000*	286	1,627	1,659	1,692	1,726	1,761	1,814
		1,411	5,694	5,805	5,919	6,305	6,153	6,338

Year Ended 31 December		1 Oct–31 Dec 2016	2017	2018	2019	2020	2021	Terminal Year
Operating Expenses (excluding depreciation)								
Capital Publishing Limited	*HKD'000*	1,475	6,207	6,357	6,527	6,677	6,836	7,041
Capital CEO Limited	*HKD'000*	530	2,124	2,221	2,304	2,358	2,413	2,486
Capital Entrepreneur Limited	*HKD'000*	530	2,546	2,625	2,712	2,774	2,839	2,924
		2,535	10,878	11,203	11,543	11,809	12,088	12,451
Depreciation								
Capital Publishing Limited	*HKD'000*	1	23	50	69	87	100	102
Capital CEO Limited	*HKD'000*	—	4	9	13	16	20	20
Capital Entrepreneur Limited	*HKD'000*	—	4	9	13	16	20	20
		1	30	68	95	120	141	143
Income Tax								
Capital Publishing Limited	*HKD'000*	183	439	538	696	779	885	912
Capital CEO Limited	*HKD'000*	46	144	335	461	499	539	555
Capital Entrepreneur Limited	*HKD'000*	46	28	103	224	258	293	301
		275	611	977	1,381	1,535	1,717	1,768
Net Income								
Capital Publishing Limited	*HKD'000*	925	2,221	2,724	3,522	3,944	4,478	4,614
Capital CEO Limited	*HKD'000*	234	729	1,698	2,331	2,523	2,728	2,810
Capital Entrepreneur Limited	*HKD'000*	234	142	523	1,136	1,303	1,481	1,526
		1,393	3,093	4,945	6,988	7,770	8,687	8,949

Note: Total may not add up due to rounding

Set out below are the analyses of revenue, cost of sales and operating expenses by income, cost and expense categories:

	2017	2018	2019	2020	2021
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Revenue					
Circulation & subscription Income	759	759	759	759	759
Advertising Income	19,547	22,240	25,167	26,511	28,027
Comprising:					
Run of Page Advertising	5,018	5,576	5,932	6,383	6,733
Premium Media Promotion Projects	2,950	3,875	4,670	5,125	5,740
Events^	9,979	10,289	11,615	12,053	12,604
FPR Projects	1,600	2,500	2,950	2,950	2,950
Total	**20,305**	**22,999**	**25,926**	**27,269**	**28,785**
Number of premium media promotion projects	10	13	16	17	19
Number of events	14	14	17	17	18
Number of FPR projects	4	6	7	7	7

^ The revenue from events represents the net revenue after deduction of direct production costs

Note: Total may not add up due to rounding

Cost of Sales

	2017	2018	2019	2020	2021	Terminal Year
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Printing costs	1,549	1,580	1,611	1,644	1,676	1,727
Editorial costs	4,145	4,225	4,308	4,391	4,477	4,611
Total	**5,694**	**5,805**	**5,919**	**6,035**	**6,153**	**6,338**

Editorial costs mainly represent the staff costs (including the freelancers) of the editorial function.

Operating Expenses

	2017 *HKD'000*	2018 *HKD'000*	2019 *HKD'000*	2020 *HKD'000*	2021 *HKD'000*	Terminal Year *HKD'000*
Staff cost	7,503	7,742	8,019	8,184	8,382	8,633
Rental, office utility and telecommunication expense	734	734	734	715	708	729
Editing and circulation cost	750	761	773	785	797	821
Others	1,891	1,966	2,017	2,125	2,201	2,268
Total	**10,878**	**11,203**	**11,543**	**11,809**	**12,088**	**12,451**

As the current and forecasted run of page constitutes relatively low usage of the total pages of the publications of Target Group 1, no major change in volume of contents in such publications was expected. Also, the forecasted circulation and subscription revenue is at a level comparable with the full year forecast of 2016. Given the above, the increase in cost of sales and operating expenses over the forecast period mainly reflects the inflationary adjustments.

1.3 Net Working Capital

The net working capital was estimated based on the expected turnover days of the accounts receivables and account payables, which are both on average 60 days according to the Management's estimate after taking into account normal payment terms that vary with different classes of account receivables and account payables, ranging from 30 days to 90 days. The change in net working capital was then arrived by subtracting the net working capital in the preceding year from that in the current year for each period.

1.4 Free Cash Flow Table

Capital Publishing Limited

Free Cash Flow

Year Ended 31 December		**1 Oct– 31 Dec 2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Terminal Year**
Net Profit	*HKD'000*	925	2,221	2,724	3,522	3,944	4,478	4,614
Add:								
Depreciation	*HKD'000*	1	23	50	69	87	100	102
Less:								
Change in Net Working Capital	*HKD'000*	–716	–95	–128	–188	–110	–134	–61
Capital Expenditure	*HKD'000*	—	–178	–98	–91	–91	–91	–102
Free Cash Flow	***HKD'000***	**211**	**1,971**	**2,548**	**3,313**	**3,830**	**4,354**	**4,553**
Terminal Value	***HKD'000***						**39,592**	
Present Value of Free Cash Flow	***HKD'000***	**207**	**1,780**	**2,010**	**2,282**	**2,305**	**2,288**	
Present Value of Terminal Value	***HKD'000***						**20,806**	
Sum of Present Values	***HKD'000***	**31,679**						

Capital CEO Limited

Free Cash Flow

Year Ended 31 December		1 Oct– 31 Dec 2016	2017	2018	2019	2020	2021	Terminal Year
Net Profit	*HKD'000*	234	729	1,698	2,331	2,523	2,728	2,810
Add:								
Depreciation	*HKD'000*	—	4	9	13	16	20	20
Less:								
Change in Net Working Capital	*HKD'000*	–782	–92	–207	–139	–47	–50	–28
Capital Expenditure	*HKD'000*	—	–36	–20	–18	–18	–18	–20
Free Cash Flow	***HKD'000***	**–548**	**606**	**1,480**	**2,186**	**2,474**	**2,680**	**2,782**
Terminal Value	***HKD'000***						**24,188**	
Present Value of Free Cash Flow	***HKD'000***	**–539**	**547**	**1,167**	**1,506**	**1,489**	**1,408**	
Present Value of Terminal Value	***HKD'000***						**12,711**	
Sum of Present Values	***HKD'000***	**18,289**						

Capital Entrepreneur Limited

Free Cash Flow

Year Ended 31 December		1 Oct– 31 Dec 2016	2017	2018	2019	2020	2021	Terminal Year
Net Profit	*HKD'000*	234	142	523	1,136	1,303	1,481	1,526
Add:								
Depreciation	*HKD'000*	—	4	9	13	16	20	20
Less:								
Change in Net Working Capital	*HKD'000*	–415	–46	–89	–135	–44	–46	–23
Capital Expenditure	*HKD'000*	—	–36	–20	–18	–18	–18	–20
Free Cash Flow	***HKD'000***	**–181**	**64**	**424**	**995**	**1,258**	**1,437**	**1,503**
Terminal Value	***HKD'000***						**13,068**	
Present Value of Free Cash Flow	***HKD'000***	**–178**	**58**	**334**	**686**	**757**	**755**	
Present Value of Terminal Value	***HKD'000***						**6,867**	
Sum of Present Values	***HKD'000***	**9,279**						

Target Group 1

Business Valuation Summary

		30 September 2016
Total Net Present Value (Capital Publishing Limited at Company Level)	*HKD*	31,678,653
Total Net Present Value (Capital CEO Limited at Company Level)	*HKD*	18,289,434
Total Net Present Value (Capital Entrepreneur Limited at Company Level)	*HKD*	9,279,216
Total Net Present Value	***HKD***	**59,247,303**
Add: Cash	***HKD***	**1,678,199**
Less: Debt	***HKD***	**0**
Add: Net Non-Operating Assets/(Liabilities)	***HKD***	**–2,418,074**
Market Value of 100% Equity Interest before Marketability Discount	***HKD***	**58,507,429**
Marketability Discount	*%*	**16.11**
Market Value of 100% Equity Interest after Marketability Discount (Rounded)	***HKD***	**49,000,000**

Notes: total may not add up due to rounding

Based on the Management's assumption that the shareholder's loan would be capitalized, debt balance is assumed to be zero as at the Date of Valuation.

2 FORECAST ASSUMPTIONS FOR TARGET COMPANY 2

The following assumptions were estimated by the Management.

2.1 Business Model

Target Company 2 publishes the magazine CAPITAL Weekly and CAPITAL Money in Hong Kong. Two magazines are distributable and saleable in one pack. The primary revenue sources comprise of circulation income, subscription income and net advertising income. Net advertising income refers to the revenue from run of page advertising, net digital income, website banner advertisement, events, premium media promotion projects, FPR projects and contract publishing and custom publishing services.

The contract publishing revenue represents the revenue from contracts for editorial, editing and printing services to be rendered over a contractual period of time. Custom publishing service refers to one-off assignment in respect of similar services.

As advised by the Management, the development of Target Company 2 would become stable from 2021 onwards. Long term projected inflation rate in Hong Kong of 3% estimated by the International Monetary Fund as sourced from Bloomberg was adopted for the projection from 2021 onwards.

2.2 Profit and Loss Forecast

Year Ended 31 December		1 Oct– 31 Dec 2016	2017	2018	2019	2020	2021	Terminal Year
Total Revenue	*HKD'000*	4,448	18,437	19,684	20,698	21,551	22,442	23,115
Total Cost of Sales	*HKD'000*	2,308	9,148	9,330	9,515	9,712	9,908	10,206
Total Operating Expenses	*HKD'000*	2,060	9,009	9,225	9,433	9,876	10,175	10,480
Depreciation	*HKD'000*	—	11	27	39	49	66	61
Total Income Tax	*HKD'000*	13	45	182	282	316	378	391
Net Profit	*HKD'000*	67	225	920	1,429	1,598	1,914	1,977

Set out below are the analyses of revenue, cost of sales and operating expenses by income, cost and expense categories:

	2017	2018	2019	2020	2021
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Revenue					
Circulation & subscription Income	4,064	4,064	4,064	4,064	4,064
Advertising Income	14,373	15,620	16,634	17,487	18,378
Comprising:					
Run of Page Advertising	6,033	6,210	6,684	7,013	7,091
Premium Media Promotion Projects	1,200	1,800	2,400	2,800	3,495
Events^	2,700	2,770	2,810	2,934	3,052
FPR Projects	2,800	3,200	3,200	3,200	3,200
Custom Publishing*	400	400	300	300	300
Contract Publishing*	1,240	1,240	1,240	1,240	1,240
Total	**18,437**	**19,684**	**20,698**	**21,551**	**22,442**
Number of premium media promotion projects	6	9	12	14	17
Number of events	7	7	7	7	7
Number of FPR projects	7	8	8	8	8
Number of contract publishing assignment	1	1	1	1	1

* The figures represent net revenue

^ The events revenue is net of direct production cost mainly comprised of the venue and backdrop, etc.

Cost of Sales

	2017	2018	2019	2020	2021	Terminal Year
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Printing costs	4,550	4,641	4,734	4,829	4,925	5,073
Editorial costs	4,598	4,688	4,781	4,884	4,983	5,133
Total	**9,148**	**9,330**	**9,515**	**9,712**	**9,908**	**10,206**

Note: Total may not add up due to rounding

Editorial costs mainly represent the staff costs (including the freelancers) of the editorial function.

Operating Expenses

	2017	2018	2019	2020	2021	Terminal Year
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Staff Cost	5,611	5,811	5,962	6,180	6,355	6,546
Rental, office utility and telecommunication expense	697	697	697	716	723	745
Editing and circulation cost	869	877	885	894	903	930
Others	1,833	1,840	1,889	2,086	2,194	2,260
Total	**9,009**	**9,225**	**9,433**	**9,876**	**10,175**	**10,480**

Note: Total may not add up due to rounding

As the current and forecasted run of page constitutes relatively low usage of the total pages of the publications of Target Company 2, no major change in volume of contents in such publications was expected. Also, the forecasted circulation and subscription revenue is at a level comparable with the full year forecast of 2016. Given the above, the increase in cost of sales and operating expenses over the forecast period mainly reflects the inflationary adjustments.

2.3 Net Working Capital

The net working capital was estimated based on the expected turnover days of the accounts receivables and account payables, which are both on average 60 days according to the Management's estimate after taking into account normal payment terms that vary with different classes of account receivables and account payables, ranging from 30 days to 90 days. The change in net working capital was then arrived by subtracting the net working capital in the preceding year from that in the current year for each period.

2.4 Free Cash Flow Table

Target Company 2

Free Cash Flow

Year Ended 31 December		**1 Oct– 31 Dec 2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Terminal Year**
Net Profit	*HKD'000*	67	225	920	1,429	1,598	1,914	1,977
Add:								
Depreciation	*HKD'000*	—	11	27	39	49	66	61
Less:								
Change in Net Working Capital	*HKD'000*	–6,760	–694	–175	–136	–108	–114	–62
Capital Expenditure	*HKD'000*	—	–107	–59	–54	–54	–54	–61
Free Cash Flow	***HKD'000***	**–6,694**	**–565**	**714**	**1,277**	**1,485**	**1,812**	**1,916**
Terminal Value	***HKD'000***						**16,657**	
Present Value of Free Cash Flow	***HKD'000***	**–6,581**	**–510**	**563**	**880**	**894**	**952**	
Present Value of Terminal Value	***HKD'000***						**8,753**	
Sum of Present Values	***HKD'000***	**4,951**						
Add Cash	***HKD'000***	**5**						
Less Debt	***HKD'000***	**0**						
Add Net Non-Operating Assets/(Liabilities)	***HKD'000***	**–977**						
Market Value of 100% Equity Value before Marketability Discount	***HKD'000***	**3,979**						
Marketability Discount	%	**16.11**						
Market Value of 100% Equity Value after Marketability Discount (Rounded)	***HKD'000***	**3,300**						

Notes: total may not add up due to rounding

Based on the Management's assumption that the shareholder's loan would be capitalized, debt balance is assumed to be zero as at the Date of Valuation.

Taking into account, among others, the composition of revenue of the Target Companies Group, the factors considered in the compilation of the forecast for the various types of revenue and the minimal impact of the revenue growth on cost of sales and operating expenses given that (i) no major change in volume of contents in the publications of the Target Companies Group was expected in the forecast period due to the relatively low usage of total pages of such publications and (ii) no major change in print run was expected in the forecast period, the directors of the Company were of the view that the assumptions adopted for the preparation of the forecast are fair and reasonable.

Roma Group comprises of Roma Appraisals Limited and Roma Oil and Mining Associates Limited. Roma Group is a well-established firm engaged in the provision of valuation and technical advisory. We are one of the leading service providers in Hong Kong with principal clients being companies listed on the Hong Kong Stock Exchange.

Our dynamic & experienced professional team is committed to deliver credible, professional and the highest quality services to our clients. Roma Group is your strategic partner of choice. We help you making the most reliable, informed and insightful corporate decisions.

Our Services:

Natural Resources Valuation and Technical Advisory Services

- Exploration Planning
- Project Feasibility Studies
- Resource Estimation
- Evaluation
- Environmental & Social Services
- Risk Management

Business & Intangible Assets Valuation

Financial Instruments Valuation
Property Valuation
Purchase Price Allocation
Machineries & Equipment Valuation
Work of Art Valuation
Corporate Advisory

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

(a) Directors' and chief executives' interests in the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors, the chief executives of the Company and their associates in the 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 notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors (the "**Model Code**") set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of interest	Number of Shares held	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Mr. Ng	Interests of controlled corporation	3,866,417,184 *(Note)*	25.63%
	Beneficial owner	556,663,200	3.69%
Ms. Cheung Choi Ngor ("**Ms. Cheung**")	Beneficial owner	615,015,578	4.08%
Hon. Raymond Arthur William Sears, Q.C.	Interest of spouse	2,650,000	0.02%

Note: The 3,866,417,184 Shares held by Mr. Ng through controlled corporations included 1,176,301,512 Shares held by Fung Shing, 2,231,184,000 Shares held by Parkfield, 99,993,600 Shares held by Ronastar and 358,938,072 Shares held by Uni-spark. Fung Shing, Parkfield and Ronastar are directly wholly-owned by Mr. Ng. Uni-spark is indirectly wholly-owned by Mr. Ng.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in any Shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which was 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 the interests and short positions in which they were deemed or taken to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, entered in the register referred to therein; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, substantial Shareholders and other persons (other than Directors or chief executive of the Company) who had interests or short positions 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 the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follow:

Long positions in Shares and underlying Shares

Name of Person	Capacity	Number of Shares held	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Ms. Ng Lai King Pamela	Interest of spouse *(Note 1)*	4,423,080,384	29.32%
Fung Shing	Beneficial owner *(Note 2)*	1,176,301,512	7.80%
Parkfield	Beneficial owner *(Note 3)*	2,231,184,000	14.79%

Notes:

1. Ms. Ng Lai King Pamela is the spouse of Mr. Ng. By virtue of the SFO, Ms. Ng Lai King Pamela is deemed to be interested in the 4,423,080,384 Shares which Mr. Ng is interested in.

2. Fung Shing is wholly-owned by Mr. Ng. The number of Shares held by Fung Shing includes its interests in the 1,176,301,512 Shares as at the Latest Practicable Date.

3. Parkfield is wholly-owned by Mr. Ng. The number of Shares held by Parkfield includes its interest in the 2,231,184,000 Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, save as Mr. Ng, who was the director of Fung Shing and Parkfield, none of the Directors was a director or an employee of a company which had an interest or short position in the Shares and underlying Shares of the Company would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company was not notified by any persons (other than Directors or chief executive of the Company as discussed above) who had interests or short positions 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 the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

3. COMPETING INTEREST

The Company and South China Assets Holdings Limited ("**SCAH**"), a company listed on The Growth Enterprise Market of the Stock Exchange, have certain common directors. The principal activities of SCAH include property investment and development, money lending and provision of investment advisory and asset management services.

Mr. Ng, Ms. Cheung and Ms. Ng Yuk Mui Jessica, all being executive Directors, are also the executive directors of SCAH.

Mr. Ng is also the chairman of the board and the controlling shareholder of SCAH. Ms. Cheung is one of the directors and substantial shareholders of a controlled corporation of Mr. Ng which holds 10.29% interest in SCAH directly and 9.74% indirect interest in SCAH through its wholly owned subsidiary as at the Latest Practicable Date. Mr. Ng together with his associates currently hold 64.92% interest in SCAH as at the Latest Practicable Date.

The Group undertakes a wide range of financial services businesses of sizable operation with solid client portfolio while SCAH is in the course of diversifying into the financial services businesses.

The above-mentioned common directors declare their interests in competing business and abstain from voting in transactions in which the Company and SCAH compete or is likely to compete with each other and, therefore, do not control the Board as far as transaction in relation to competing business is concerned. As such, the Board is independent from the board of SCAH, which consists of nine members. To the best of the knowledge of the Directors, the Group is capable of carrying on its businesses independently and at arm's length from the businesses of SCAH.

Save as disclosed above and other than being appointed as directors to represent the interests of the Company and/or the Group, none of the Directors or their respective associates had interest in any business which compete or is likely to compete, either directly or indirectly, with the businesses of the Group as at the Latest Practicable Date.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As disclosed in the announcement of the Company dated 29 July 2016 and the interim report of the Group for the six months ended 30 June 2016, the Group recorded a loss for the six months ended 30 June 2016. The loss was primarily attributable to a fair value loss on financial assets as well as a decline in trading gains on financial assets during the six months ended 30 June 2016. There was also a decline in the broking income segment due to weak local stock market turnover.

As at the Latest Practicable Date, save for the above, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up.

6. DIRECTORS' INTERESTS IN CONTRACTS OR ASSETS

As at the Latest Practicable Date, save for the Agreement,

(i) there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group; and

(ii) none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. QUALIFICATION AND CONSENTS OF EXPERT

(a) The following sets out the qualifications of the experts who have given their opinions or advice or statements as contained in this circular:

Name	**Qualification**
Ernst & Young	Certified Public Accountants
Hercules	A corporation licenced to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Roma Appraisals Limited	Independent valuer
Dakin Capital Limited	A corporation licenced to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

(b) As at the Latest Practicable Date, each of Ernst & Young, Hercules, Roma Appraisals Limited and Dakin Capital Limited had no shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.

(c) As at the Latest Practicable Date, each of Ernst & Young, Hercules, Roma Appraisals Limited and Dakin Capital Limited had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2015 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased to any member of the Group.

(d) As at the Latest Practicable Date, each of Ernst & Young, Hercules, Roma Appraisals Limited and Dakin Capital Limited had given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their reports or letters or their name and logo in the form and context in which they respectively appear.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any Business Days from the date of this circular up to and including 14 days (except public holidays) at the Company's principal place of business in Hong Kong situated at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong:

(a) the Agreement;

(b) the MOU;

(c) the annual reports of the Company for each of the two years ended 31 December 2014 and 2015;

(d) the written consents referred to in the section headed "Qualification and Consents of Expert" in this appendix;

(e) the letter from the Board, the text of which is set out from pages 5 to 19 of this circular;

(f) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this circular;

(g) the letter from the Independent Financial Adviser, the text of which is set out on pages 22 to 41 of this circular;

(h) the Valuation Report; and

(i) this circular.

9. MISCELLANEOUS

In case of any inconsistency, the English text of this circular shall prevail over its Chinese text.

SOUTH CHINA FINANCIAL HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of South China Financial Holdings Limited (the "**Company**") will be held at 10:00 a.m. on Tuesday, 17 January 2017 at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong for the purposes of considering and, if thought fit, passing with or without modifications, the following resolution which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the sale and purchase agreement dated 3 November 2016 (the "**Agreement**") (a copy of which is marked "A" and produced to this meeting) entered into between Perfect Mind Ventures Limited (the "**Purchaser**"), being a wholly-owned subsidiary of the Company, and Win Gain Investments Limited and Surge Fast Assets Limited (the "**Vendors**"), both being the wholly-owned companies of Mr. Ng Hung Sang (an executive director, the Chairman of the board of directors and a substantial shareholder of the Company), pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the entire issued share capital of Media Bonus Limited and Golden Ways Limited for a consideration of HK$20,000,000 in aggregate (as adjusted pursuant to the Agreement) and all the transactions contemplated thereunder, be and are hereby approved, ratified and confirmed; and

(b) the directors of the Company (the "**Directors**") be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as they consider necessary, appropriate, desirable or expedient for implementation of and giving effect to the Agreement, or any of the transactions contemplated thereunder and to agree to such variation, amendments or waiver or matters relating thereto as are, in their opinion, in the interests of the Company and its shareholders as a whole."

Yours faithfully,
By order of the Board
South China Financial Holdings Limited
Ms. Ng Yuk Mui Jessica
Executive Director

Hong Kong, 29 December 2016

Notes:

1. A member of the Company ("**Shareholder**") entitled to attend and vote at the EGM is entitled to appoint one or, if such Shareholder is a holder of more than one share, more proxies to attend and vote in his stead. A proxy need not be a Shareholder.

2. In order to be valid, the form of proxy must be deposited at Union Registrars Limited, the share registrar of the Company, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

3. Completion and delivery of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM if the Shareholder so desires and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. Where there are joint registered holders of any share of the Company, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such holders be present at the EGM personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

As at the date of this notice, the Directors are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Ms. Ng Yuk Mui Jessica as executive Directors; and (2) Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric as independent non-executive Directors.