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

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

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HUA LONG JIN KONG COMPANY LIMITED

華隆金控有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1682)

**DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTIONS AND
CONTINUING CONNECTED TRANSACTIONS RELATING TO
THE ENTRY OF THE VIE AGREEMENTS
AND NOTICE OF SPECIAL GENERAL MEETING**

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

MESSIS  **大有融資**

A letter from the Board is set out on pages 6 to 53 of this circular. A letter from the Independent Board Committee is set out on pages 54 to 55 of this circular. A letter from the Independent Financial Adviser is set out on pages 56 to 80 of this circular.

A notice convening the SGM of Hua Long Jin Kong Company Limited to be held at 26th Floor, No.238 Des Voeux Road Central, Hong Kong on Monday, 10 December 2018 at 3:00 p.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is enclosed with this circular.

Whether or not you are able to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of the power of attorney or authority, to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjourned meeting thereof (as the case may be) should you so wish and in such event, your appointment of proxy under any proxy form shall be deemed to be revoked.

20 November 2018

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DEFINITIONS

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

“associate”	has the meaning as ascribed thereto in the Listing Rules
“Authorisation Agreement”	the authorisation agreement (股東表決權委託協議) entered into among the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Chun’an Huaying”	Chun’an Huaying Financial Information Service Co., Ltd.* (淳安華贏金融信息服務有限公司), a company established in the PRC with limited liability on 24 December 2015, which is a direct subsidiary of the OPCO being owned as to 51%
“Company”	Hua Long Jin Kong Company Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning as ascribed thereto in the Listing Rules
“connected transaction(s)”	has the meaning as ascribed thereto in the Listing Rules
“continuing connected transaction(s)”	has the meaning as ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the meaning as ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“e-commerce”	commercial transactions conducted electronically on the Internet
“Equity Pledge Agreement”	the equity pledge agreement (股份質押協議) entered into between the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular
“Exclusive Business Co-operation Agreement”	the exclusive business co-operation agreement (獨家業務合作協議) entered into between the WFOE, the OPCO, Chun’an Huaying and Kaihua Huijin, details of which are set out in the section headed “VIE Agreements” in this circular

DEFINITIONS

“Exclusive Purchase Right Agreement”	the exclusive purchase right agreement (獨家購買權協議) entered into among the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular
“Fintech”	an abbreviation of “financial technology”, an industry composed of companies that use new technology and innovation to leverage available resources in order to compete in the marketplace of traditional financial institutions and intermediaries in the delivery of financial services
“Group”	the Company and its subsidiaries
“ICP Licence”	a value-added telecommunications business operation licence (互聯網信息服務增值電信業務經營許可證) with a service scope of information services of Category 2 value-added telecommunication services by the relevant PRC government authorities
“Independent Board Committee”	a committee under the Board which is established for the purpose of advising the Independent Shareholders on the entry of the VIE Agreements, including independent non-executive Directors, Mr. Li Hui, Mr. Chau On Ta Yuen and Dr. Lam Lee G
“Independent Financial Adviser” or “Messis”	Messis Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the entry of the VIE Agreements
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Zhi and his respective associates
“Independent Third Party(ies)”	third party(ies) independent of, and not connected with, the Company and its connected persons
“Kaihua Huijin”	Kaihua Huijin Financial Information Service Co., Ltd.* (開化惠金金融信息服務有限公司), a company established in the PRC with limited liability on 17 December 2015, which is a direct subsidiary of the OPCO being owned as to 51%
“Latest Practicable Date”	20 November 2018, the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Loan”	a loan in an aggregate amount of RMB6,540,000 provided by the WFOE to the PRC Equity Owners subject to the terms of the Loan Agreement
“Loan Agreement”	the loan agreement (借款協議) entered into among the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular
“Mr. Zhi”	Mr. Zhi Hua (支華), being a person with the PRC nationality who holds 60% equity interest in Zhis Holding Co, is an executive Director and the spouse of Ms. Yu
“Ms. Yu”	Ms. Yu Xiaoling (俞曉玲), being one of the PRC Equity Owners holding 10% equity interest in the OPCO and a shareholder holding 40% equity interest in Zhis Holding Co, is the spouse of Mr. Zhi
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“MIIT”	Ministry of Industry and Information Technology
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“OPCO”	Hangzhou Huazhiying Investment Management Co., Ltd.* (杭州華之贏投資管理有限公司), a company established in the PRC with limited liability on 3 November 2014, which is legally owned as to 90% and 10% by Zhis Holding Co and Ms. Yu, respectively
“OPCO Group”	the OPCO and its subsidiaries, namely, Chun’an Huaying and Kaihua Huijin, to be controlled by the WFOE through the VIE Agreements
“P2P Financing”	peer-to-peer financing, a method of debt financing that enables the borrowers and lenders to borrow and lend money without the use of an official institution as an intermediary
“PBOC”	The People’s Bank of China (中國人民銀行), the central bank of China
“PRC”	the People’s Republic of China, which shall, for the purposes of this circular, exclude Hong Kong, Macau and Taiwan

DEFINITIONS

“PRC Equity Owner(s)”	the persons with the PRC nationality who hold the entire equity interest of the OPCO, namely Zhis Holding Co and Ms. Yu
“PRC Laws”	any and all laws, regulations, statutes, rules, orders, decrees, circulars, notices, supreme court’s judicial interpretations and subsidiary legislations currently in force and publicly available in the PRC as of the Latest Practicable Date
“PRC Legal Adviser”	Zhejiang Sudi Law Firm* (浙江蘇堤律師事務所), the PRC legal adviser to the Company
“Prime Agreement(s)”	the Exclusive Business Co-operation Agreement, the Loan Agreement, the Exclusive Purchase Right Agreement and the Authorisation Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Secured Obligations”	the Loan under the Loan Agreement and all direct, indirect, incidental, subordinate loss and expected loss suffered by the WFOE as pledgee due to any breach of the Prime Agreements by the OPCO and the PRC Equity Owners
“SGM”	the special general meeting to be convened to approve the VIE Structure (including the transactions contemplated under the VIE Structure)
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Spousal Consent Letter(s)”	the spousal consent letter(s) (配偶同意函) entered into by the spouse of the individual PRC Equity Owner, details of which are set out in the section headed “VIE Agreements” in this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VIE”	variable interest entity, being an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights

DEFINITIONS

“VIE Agreements”	collectively, the Exclusive Business Co-operation Agreement, the Loan Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreement, the Authorisation Agreement and the Spousal Consent Letter, details of which are set out in the section headed “VIE Agreements” in this circular, and as amended from time to time
“VIE Structure”	the structure established through the entering into of the VIE Agreements, which enables the Group to effectively hold and control the OPCO
“WFOE”	Linglong (Hangzhou) Asset Management Co., Ltd.* (玲隆(杭州)資產管理有限公司), a company established in the PRC with limited liability on 13 December 2017, which is an indirect wholly-owned subsidiary of the Company
“Zhis Holding Co”	Zhis Holding Group Co., Ltd.* (支氏控股集團有限公司), being one of the PRC Equity Owners holding 90% equity interest in the OPCO, is a company established in the PRC with limited liability on 17 September 2015, which is legally owned as to 60% and 40% by Mr. Zhi and Ms. Yu, respectively
“%”	per cent

LETTER FROM THE BOARD



HUA LONG JIN KONG COMPANY LIMITED

華隆金控有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1682)

Executive Directors:

Mr. Zhi Hua (*Chairman*)
Mr. Lam Kai Yeung
Mr. Ma Jun

Non-Executive Director:

Mr. Chan Kin

Independent non-executive Directors:

Mr. Li Hui
Mr. Chau On Ta Yuen
Dr. Lam Lee G

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and Principal

place of business in Hong Kong:
25th & 26th Floor,
No. 238 Des Voeux Road Central,
Hong Kong

20 November 2018

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTIONS AND
CONTINUING CONNECTED TRANSACTIONS RELATING TO
THE ENTRY OF THE VIE AGREEMENTS
AND NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 4 October 2018.

INTRODUCTION

On 4 October 2018 (after trading hours), the WFOE entered into the VIE Agreements with the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO.

LETTER FROM THE BOARD

VIE AGREEMENTS

A summary of the terms of the VIE Agreements is set out below:

(1) The Exclusive Business Co-operation Agreement

- Parties:
- (a) the WFOE;
 - (b) the OPCO;
 - (c) Chun'an Huaying; and
 - (d) Kaihua Huijin.
- Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement. The OPCO shall have no right to terminate this agreement.
- Subject: The OPCO shall engage the WFOE on an exclusive basis to provide the following technical support, consulting services and other services:
- (i) Granting the OPCO the right to use the intellectual property of the WFOE and its subsidiaries (if any), including but not limited to software licence and trademark licence;
 - (ii) Research and development, maintenance and update of software used by the OPCO for the purpose of its principal business;
 - (iii) Design, installation and maintenance of internet network system, databases and servers used by the OPCO for the purpose of its principal business;
 - (iv) Technical training and support for employees of the OPCO;
 - (v) Market research and marketing strategies;
 - (vi) Management and business strategy of the OPCO;
 - (vii) Leasing office equipment and other operation equipment; and
 - (viii) Other related services as agreed by the WFOE and the OPCO.

LETTER FROM THE BOARD

Fee: For the services provided by the WFOE under the Exclusive Business Co-operation Agreement, the OPCO shall pay, on a monthly basis, to the WFOE a service fee that is determined at the sole discretion of the WFOE, having taking into account the following considerations:

- (i) the complexity and difficulty of the services provided by the WFOE;
- (ii) the manpower provided by the WFOE for the provision of service;
- (iii) the actual services and the commercial value of the services provided by the WFOE;
- (iv) the prevailing market rates for the same type of services; and
- (v) the operating condition of the OPCO (such that the OPCO would not be in financial difficulty after the payment of the service fee).

Under such arrangement, the service fee subject to the WFOE's adjustment, are equal to all of the net profit of the OPCO Group. The WFOE may adjust the service fee at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, retention of sufficient working capital, and accumulated losses of the OPCO Group from previous financial periods.

(2) The Exclusive Purchase Right Agreement

Parties: (a) the WFOE;

(b) the PRC Equity Owners; and

(c) the OPCO.

Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to this agreement. The OPCO and the PRC Equity Owners shall have no right to terminate this agreement.

LETTER FROM THE BOARD

Subject: The PRC Equity Owners irrevocably grant the WFOE an exclusive right, at any time and from time to time, to purchase or nominate any individuals/entities to purchase all or part of their equity interests in the OPCO at the lowest price permissible (the “**Permissible Minimum**”) under the PRC Laws.

The OPCO irrevocably grant the WFOE an exclusive right to purchase or nominate any individuals/entities to purchase all or part of its assets at the lowest price permissible under the PRC Laws.

When exercising the exclusive purchase right granted by the Exclusive Purchase Rights Agreement, the PRC Equity Owners agree to return the consideration for WFOE to exercise the exclusive purchase right by way of setting off the consideration against the outstanding amount of Loan owned by the respective shareholders of the OPCO. If the consideration of the transfer is determined to be lower than the amount of the outstanding balance of Loan, WFOE has agreed to waive the obligation of the shareholders of the OPCO to repay the residual outstanding amount of Loan. If the consideration of the transfer is determined to be higher than the amount of the outstanding balance of Loan, the discrepancy would be waived by the PRC Equity Owners. Accordingly, the WFOE is not required to pay extra consideration to PRC Equity Owners for the transfer under the Loan arrangement.

The PRC Equity Owners shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of their equity interests in the OPCO, or granting others a right to purchase such equity interests (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE, and shall procure to the above effect at the shareholders’ meetings and the meetings of the board of directors.

The OPCO shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of its assets, or granting others a right to purchase such assets (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE.

Where the purchase price is required by the relevant PRC Laws to be an amount other than a nil consideration, the PRC Equity Owners shall return the amount of purchase price they have received to the WFOE.

The WFOE have the sole discretion to decide when to exercise the purchase right, and whether to exercise the purchase right in part or in full. The key factor for WFOE to decide whether to exercise the purchase right is whether the current regulatory restrictions on foreign investment in the profitable internet information service business are removed in the future.

LETTER FROM THE BOARD

Undertakings and
covenants:

The PRC Equity Owners and the OPCO jointly and severally agree and undertake that, without the prior written consent from the WFOE, the OPCO would not (and the PRC Equity Owners would not procure the OPCO to) enter into any transaction that may affect the OPCO's assets, obligations, business or operations, including but not limited to the following:

- (i) Conducting business beyond the usual and normal scope or inconsistent with past practice of the OPCO;
- (ii) Conducting merger, consolidation, acquisition or restructuring of the OPCO's main business or assets, or otherwise any kind of acquisition or investment;
- (iii) Providing loan to any third party or incurring any liability from any third party which is not within the usual and normal scope of business of the OPCO;
- (iv) Appointing, re-designating or dismissing any director, general manager, chief financial officer or any other senior management of the OPCO;
- (v) Selling, acquiring, mortgaging, licensing or otherwise disposing of any tangible or intangible assets of the OPCO outside its usual and normal scope of business;
- (vi) Incurring, inheriting, assuming or providing guarantee for any liability that is not within the OPCO's usual and normal scope of business, and providing any form of guarantee in favour of any third party with its assets or creating any other encumbrance on any of its assets;
- (vii) Supplementing or modifying the articles of association of the OPCO, increasing or decreasing the OPCO's registered capital or otherwise changing the OPCO's registered capital structure;
- (viii) Adjusting the OPCO's business model, marketing strategy, operation guidelines or customer relationship;
- (ix) Changing the OPCO's normal operating procedure or modifying its internal rules or guidance;

LETTER FROM THE BOARD

- (x) Distributing dividends or equity entitlements unless with written request from WFOE. After such distribution, the PRC Equity Owners shall within three business days inform the WFOE of such distribution and transfer all such dividends or equity entitlements to the WFOE at nil consideration;
- (xi) Entering into any material agreements (it is at the WFOE's discretion to determine what constitute "material agreements" and any agreements involving an amount of RMB100,000 or above will be deemed as material agreements);
- (xii) Selling, transferring, securing or otherwise disposing of the OPCO's business or income;
- (xiii) Dissolving or liquidating the OPCO and distributing its remaining assets; or
- (xiv) Procuring any OPCO's subsidiary or associated company to enter into any above-mentioned transaction or agreement, or executing other document that may result in the above-mentioned transaction.

In addition, the OPCO agrees and covenants to the WFOE that it shall, and the PRC Equity Owners shall procure the OPCO to:

- (i) Unconditionally accept proposals raised by the WFOE, including but not limited to the engagement and replacement of employees, daily operations, dividend distribution and financial management systems of the OPCO and the OPCO shall strictly abide by and perform accordingly;
- (ii) Unconditionally transfer the business licence, company's seal and other important documents of the OPCO to the directors designated by the WFOE;
- (iii) Maintain the OPCO's corporate existence in accordance with good financial and business standards and usual practices by prudently and effectively operating its business and handling its affairs;
- (iv) Conducting the OPCO's business in the ordinary course of business to maintain the asset value of the OPCO and refraining from any act or omission that may adversely affect the OPCO's operation and asset value;

LETTER FROM THE BOARD

- (v) WFOE is entitled to inspect the OPCO's accounts regularly and at any time, and at the WFOE's request, providing the WFOE with relevant information, providing information regarding the OPCO's operation, business, customers, finance, staffing, etc for the WFOE, its auditors and/or other professionals for any audit and due diligence exercise, and allowing the WFOE and its shareholders to disclose such information in accordance with relevant securities regulations;
- (vi) If requested by the WFOE, purchase and maintain insurance in respect of the OPCO's assets and business from an insurer acceptable to the WFOE, at an amount and type of coverage which are typical for companies that operate similar business;
- (vii) If requested by the WFOE in writing, pledge all receivables and all other assets as security for performing its obligations to pay the services fees under the Exclusive Consultancy Services Agreement;
- (viii) Immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the OPCO's assets, business or revenue;
- (ix) Immediately notify the WFOE of the occurrence or possible occurrence of any circumstances which may have a material adverse effect on the OPCO's business and operations, and try its best to avoid such circumstances and/or mitigate the loss arising thereof; and
- (x) Executing all necessary or appropriate documents, taking all necessary or appropriate actions, and filing all necessary or appropriate complaints or raising necessary and appropriate defences against all claims so as to maintain OPCO's ownership of all its assets.

(3) The Loan Agreement

- Parties:
- (a) the WFOE (as lender);
 - (b) the PRC Equity Owners (each as one of the borrowers); and
 - (c) the OPCO.

Principal: The WFOE shall provide a loan in an aggregate amount of RMB6,540,000, which represents the approximate net asset value of the OPCO Group as at 31 August 2018, to the PRC Equity Owners pro rata to their shareholdings in the OPCO and the Loan may be freely used by the PRC Equity Owners. The Loan provided by WFOE is one off and for the consideration of acquiring the economic interests and benefits generated by the OPCO.

LETTER FROM THE BOARD

Repayment: When exercising the exclusive purchase right granted by the Exclusive Purchase Rights Agreement, the WFOE shall set off the consideration against the outstanding amount of Loan owned by the respective shareholders of the OPCO. If the consideration of the transfer is determined to be lower than the amount of the outstanding balance of Loan, WFOE has agreed to waive the obligation of the shareholders of the OPCO to repay the residual outstanding amount of Loan. If the consideration of the transfer is determined to be higher than the amount of the outstanding balance of Loan, the discrepancy would be waived by the PRC Equity Owners. Accordingly, the WFOE is not required to pay extra consideration to the PRC Equity Owners for the transfer under the Loan arrangement.

Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement. The Loan is for an infinite term until termination at the sole discretion of the WFOE. The loan will become due and payable upon the WFOE's demand under any of the following circumstances:

- (i) the winding-up or liquidation of the OPCO;
- (ii) the dissolution of the OPCO;
- (iii) the OPCO or the PRC Equity Owners becoming insolvent or incurring any other significant personal debt which may affect the ability of the OPCO to repay the loan under the Loan Agreement; or
- (iv) the WFOE exercising its right to purchase all shares in the OPCO to the extent permitted by PRC Laws.

(4) The Equity Pledge Agreement

Parties:

- (a) the WFOE (as pledgee);
- (b) the PRC Equity Owners (as pledgors); and
- (c) the OPCO.

Term: Effective upon execution and shall remain binding until (i) the PRC Equity Owners discharge all their obligations under the Prime Agreements in full; and (ii) the Secured Obligations are discharged in full.

LETTER FROM THE BOARD

Subject: The PRC Equity Owners agree to pledge all of their shares in the OPCO to the WFOE to secure the performance of all their obligations and the obligations of the OPCO under the VIE Agreements.

Any dividend and/or other distribution generated by the pledged equity interests during the term of the pledge shall be returned to the WFOE.

(5) The Authorisation Agreement

Parties: (a) the WFOE;
(b) the PRC Equity Owners; and
(c) the OPCO.

Term: Effective upon execution and shall remain in effect until the WFOE terminates the Authorisation Agreement in writing, or all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO have been legally transferred to the WFOE or such individuals/entities as designated by the WFOE.

Subject: Each of the PRC Equity Owners unconditionally and irrevocably authorises the WFOE or its successor (who may further delegate such rights to other individuals) to exercise all of their rights as shareholders of the OPCO under PRC Laws, including but not limited to:

- (i) Convening, attending and participating shareholders' meetings of the OPCO, receiving relevant notice or document relating to the shareholders' meetings;
- (ii) Discussing and voting in shareholders' meetings of the OPCO;
- (iii) Signing and delivering any written resolutions and minutes of shareholders' meetings of the OPCO and any other documents required to be signed by the shareholders of the OPCO, and submitting documents with relevant companies registry for filing purpose;
- (iv) Selling, transferring, securing or disposing of the shares in the OPCO;
- (v) Approving the register of new shareholders or the withdrawal of existing shareholders of the OPCO;
- (vi) Directing directors and the legal representative of the OPCO to perform as requested;

LETTER FROM THE BOARD

- (vii) Supervising the economic performance of the OPCO;
- (viii) Exercising full usage right of the OPCO's financial information;
- (ix) Instituting any legal proceedings or taking any legal action against the OPCO's directors or shareholders who act against the interest of the OPCO and its shareholders;
- (x) Approving annual budget;
- (xi) Managing or disposing of the assets of the OPCO;
- (xii) Exercising full rights to control and manage the finance, accounting and daily operation of the OPCO;
- (xiii) Approving any documents that have to be submitted to the relevant government departments or supervising authorities for filing purpose; and
- (xiv) Exercising all other shareholders' rights under laws and regulations and articles of association of the OPCO.

The PRC Equity Owners irrevocably undertake that:

- (i) Unless with written consent from the WFOE, they will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of the OPCO or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interests between themselves and the WFOE;
- (ii) None of their actions or omissions will give rise to conflict of interests between themselves and the WFOE (including the shareholders of the WFOE); and
- (iii) In the event of any conflict of interests between them and the WFOE, which shall be decided at the sole discretion of the WFOE, they will take any actions as instructed by the WFOE to eliminate such conflict provided that such action is compliant with PRC Laws.

LETTER FROM THE BOARD

(6) The Spousal Consent Letter

- Party: The spouse of Ms. Yu, one of the PRC Equity Owners
- Subject: The spouse of the individual PRC Equity Owner irrevocably agrees that:
- (i) All the equity interests held by the PRC Equity Owners in the OPCO and all the benefits generated from these equity interests do not form part of their matrimonial property;
 - (ii) He/she unconditionally and irrevocably waives any rights or entitlements to the equity interests of the OPCO;
 - (iii) All the benefits generated from the equity interests in the OPCO belong to the PRC Equity Owners and can be dealt with in any way by the PRC Equity Owners without the consent of their spouses;
 - (iv) He/she shall be bound by the relevant VIE Agreements in the event that they obtain any equity interest in the OPCO held by the PRC Equity Owners for any reason;
 - (v) He/she shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance by the shareholder spouse's obligations under the VIE Agreements; and
 - (vi) He/she, his/her successor, guardian, creditor, spouse or any other person that may be entitled to assume rights in the equity interests of the OPCO held by him/she upon his/her death, incapacity, divorce or any circumstances that may affect his/her ability to exercise his/her shareholder's rights in the OPCO, will not, in any manner and in any circumstances, carry out any act that may affect or hinder the fulfilment of the shareholder spouse's obligations under the VIE Agreements.

As advised by the PRC Legal Adviser, Mr. Zhi and Ms. Yu owns 60% and 40% respectively of Zhis Holding Co. Zhis Holdings Co and Ms. Yu are the 90% and 10% registered shareholders, respectively of the OPCO with a registered capital of RMB50 million, of which RMB13.73 million has been paid. Accordingly, the OPCO is indirectly owned by Mr. Zhi and Ms. Yu. Pursuant to the PRC Laws and the articles of association of the OPCO, legal documents concerning OPCO signed by Zhis Holding Group Co., Limited and Ms. Yu, being all registered shareholders of the OPCO, are legal, valid and binding against the OPCO.

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Although Mr. Zhi was not signing party to the Exclusive Business Co-operation Agreement, Exclusive Purchase Right Agreement, the Loan Agreement, the Equity Pledge Agreement and the Authorisation Agreement, Mr. Zhi, as 60% controlling shareholder of Zhis Holding Co, had duly approved and authorized the execution of the VIE Agreements through the passing of all necessary shareholders' resolutions and board resolutions in compliance with the PRC Laws. As confirmed by the PRC Legal Adviser, notwithstanding the indirect ownership of the OPCO by Mr. Zhi and Ms. Yu through Zhis Holding Co and the fact that Mr. Zhi was not a signing party to the Exclusive Business Co-operation Agreement, Exclusive Purchase Right Agreement, the Loan Agreement, the Equity Pledge Agreement and the Authorisation Agreement, the VIE Agreements are legal, valid and binding against the OPCO according to PRC Laws.

Mr. Zhi also confirmed that he is well aware and agrees to the contractual arrangements. Mr. Zhi and Ms. Yu, being all the equity owners of Zhis Holding Co undertook, jointly and severally, to the Company and the WFOE (the "**Undertaking**") that:

- (a) they would procure to secure the performance of all obligations of Zhis Holding Co under the VIE Agreements and that they would not transfer or otherwise dispose of, directly or indirectly, their equity interests in Zhis Holding Co and/or the OPCO and/or create or allow any pledge thereon that may affect the rights and interests of the WFOE under the VIE Agreements without its prior consent;
- (b) they unconditionally and irrevocably waive any rights or entitlements to the equity interests of Zhis Holding Co and the OPCO;
- (c) all the benefits generated from their equity interests, directly or indirectly, in the OPCO belong to the WFOE and can be dealt with by the WFOE without their consent;
- (d) they shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance by Zhis Holding Co under the VIE Agreements; and
- (e) they, their successor, guardian, creditor, spouse or any other person that may be entitled to assume rights in their equity interests of Zhis Holding Co and the OPCO held by them upon their death, incapacity, divorce or any circumstances that may affect their ability to exercise their shareholders' rights in Zhis Holding Co and the OPCO, will not, in any manner and in any circumstances, carry out any act that may affect or hinder the fulfilment of Zhis Holding Co's obligations under the VIE Agreements and will be bound by the VIE Agreements.

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For the above reasons, Mr. Zhi had irrevocably agreed to the contractual arrangements despite the fact that he was not a signing party to the Exclusive Business Co-operation Agreement, the Exclusive Purchase Right Agreement, the Loan Agreement, the Equity Pledge Agreement and the Authorisation Agreement.

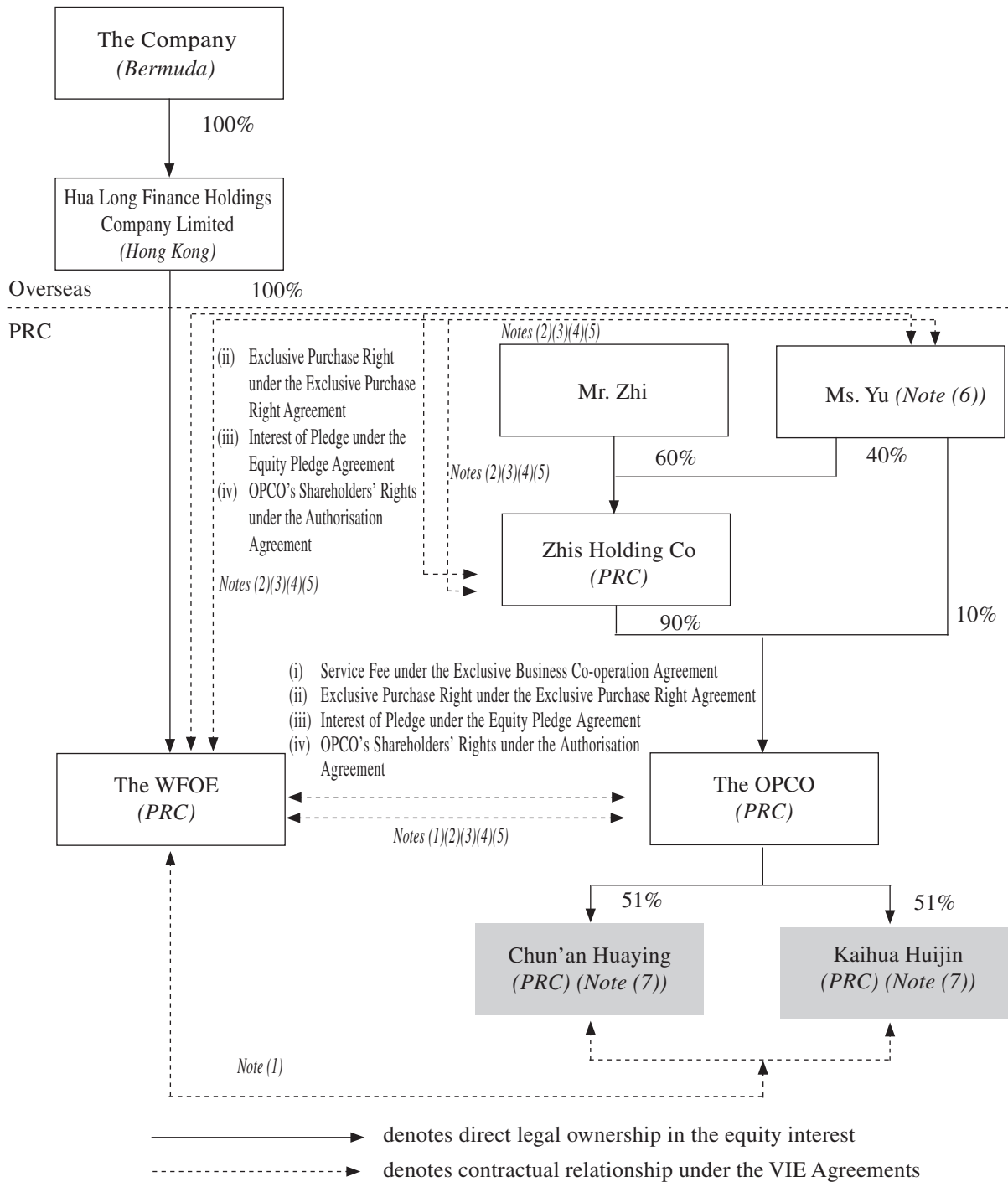
As confirmed by the PRC Legal Adviser, the effect of the VIE Agreements covers the Subsidiaries and the VIE Structure covers the Subsidiaries. By way of the VIE Agreements, the Company controls the OPCO and indirectly the Subsidiaries. As advised by the PRC Legal Adviser, such indirect control will not affect the legality and validity of the VIE Agreements over the Subsidiaries.

DIAGRAM OF THE VIE STRUCTURE

The following diagram illustrates the VIE Structure under the VIE Agreements entered into amongst relevant parties, and the flow of economic benefits from the OPCO to the WFOE under the VIE Agreements, including:

- (i) service fee for provision of technical support, consulting services and other services (“**Service Fee**”) (*Note (1)*);
- (ii) exclusive right to purchase or nominate any individuals/entities to purchase all or part of the equity interest in and/or assets of the OPCO at the lowest price permissible under the PRC Laws (“**Exclusive Purchase Right**”) (*Note (2)*);
- (iii) any dividend and/or other distribution generated by the pledged equity interest during the term of the pledge (“**Interest of Pledge**”) (*Note (4)*); and
- (iv) rights to exercise (or further delegate such rights to other individuals as its successor to exercise) all shareholders’ rights in the OPCO (“**OPCO’s Shareholders’ Rights**”) (*Note (5)*).

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Notes:

- (1) Please refer to “Letter from the Board – VIE Agreements – The Exclusive Business Co-operation Agreement” for details.
- (2) Please refer to “Letter from the Board – VIE Agreements – The Exclusive Purchase Right Agreement” for details.
- (3) Please refer to “Letter from the Board – VIE Agreements – The Loan Agreement” for details.
- (4) Please refer to “Letter from the Board – VIE Agreements – The Equity Pledge Agreement” for details.
- (5) Please refer to “Letter from the Board – VIE Agreements – The Authorisation Agreement” for details.
- (6) Please refer to “Letter from the Board – VIE Agreements – The Spousal Consent Letter” for details.
- (7) The Company (via OPCO) has intention to dispose the entire interest in Chun’an Huaying and Kaihua Huijin to an independent third party. Accordingly, no economic benefits will flow from the Subsidiaries to the WFOE under the VIE Agreements. The Company undertakes not to commence any business of the Subsidiaries prior to the disposal of or transfer its entire interest in the Subsidiaries.

LETTER FROM THE BOARD

Information about the WFOE and the OPCO Group

The WFOE

The WFOE is a limited liability company established in the PRC on 13 December 2017 and an indirect wholly-owned subsidiary of the Company. It mainly engages in the business of assets management.

Further Information of the OPCO Group

Background of the OPCO Group

The OPCO is a limited liability company established in the PRC on 3 November 2014. The Group does not directly own any equity interest in the OPCO, which is currently held by Zhis Holding Co and Ms. Yu as to 90% and 10%, respectively, whereas Zhis Holding Co is currently held by Mr. Zhi and Ms. Yu as to 60% and 40%, respectively.

As confirmed by the PRC Legal Adviser, the OPCO is a limited liability company established in the PRC on 3 November 2014 by Mr. Zhi and Ms. Yu. In October 2015, Mr. Zhi transferred his entire equity interest to Zhis Holding Co at nil consideration as the share capital of the OPCO has not been paid up. In February 2016, Zhis Holdings Co and Ms. Yu were the registered shareholders of the OPCO with a registered capital of RMB50 million, of which RMB13.73 million has been paid, and since then and as of the date of the PRC legal opinion, the OPCO is owned as to 90% and 10% by Zhis Holdings Co and Ms. Yu, respectively.

Chun'an Huaying is a limited liability company established in the PRC on 24 December 2015. The Group does not directly own any equity interest in Chun'an Huaying, which is currently held by the OPCO and Feng Xiaoshuang (豐曉霜), an Independent Third Party, as to 51% and 49%, respectively. Chun'an Huaying is primarily engaged in the provision of financial information service.

Kaihua Huijin is a limited liability company established in the PRC on 17 December 2015. The Group does not directly own any equity interest in Kaihua Huijin, which is currently held by the OPCO and two Independent Third Parties, namely, Teng Hui (滕輝) and Jiang Mei (江梅), as to 51%, 39% and 10%, respectively. Kaihua Huijin is primarily engaged in the provision of financial information technology subcontracting services.

Ms. Feng Xiaoshuang, Mr. Teng Hui and Ms. Jiang Mei are three individuals in the PRC. Ms. Feng Xiaoshuang is a senior manager of a company which principally engages in advertising and media business. Mr. Teng Hui is the legal representative of a company which principally engages in providing financial and investment services. Ms. Jiang Mei does not hold any position in any other companies. Mr. Jiang Mei is a professional investor.

Ms. Feng Xiaoshuang, Mr. Teng Hui and Ms. Jiang Mei, and their respective associates have no relationship with the Company, its connected persons and their respective associates.

LETTER FROM THE BOARD

Loss Sharing

Under the relevant PRC Laws, none of the VIE Agreements provides that the Company or the WFOE, is obligated to share the losses of the OPCO Group, but if the OPCO Group suffers any losses or material difficulties of business, the WFOE may provide financial support as permitted under PRC laws at its discretion to the OPCO under the terms of the Exclusive Business Co-operation Agreement. Further, the OPCO is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under the PRC Laws, the Company or WFOE is not expressly required to share the losses of the OPCO Group or provide financial support to the OPCO Group. Despite the foregoing, given that the Group conducts the value-added telecommunications business in the PRC through the OPCO which holds the requisite ICP Licence, and that the OPCO Group's results of operations and assets and liabilities are consolidated into the Group's results of operations and assets and liabilities under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if the OPCO Group suffered losses.

However, as provided in the Exclusive Purchase Right Agreement, the OPCO undertakes, among others, that without the prior written consent from the WFOE, the OPCO would not enter into any transaction that may affect the OPCO's assets, obligations, business or operations, including but not limited to:

- (i) selling, acquiring, mortgaging, licensing or otherwise disposing of any tangible or intangible assets of the OPCO outside its usual and normal scope of business;
- (ii) incurring, inheriting, assuming or providing guarantee for any liability that is not within the OPCO's usual and normal scope of business, and providing any form of guarantee in favour of any third party with its assets or creating any other encumbrance on any of its asset conducting the OPCO's business in the ordinary course of business to maintain the asset value of the OPCO and refraining from any act or omission that may adversely affect the OPCO's operation and asset value;
- (iii) supplementing or modifying the articles of association of the OPCO, increasing or decreasing the OPCO's registered capital or otherwise changing the OPCO's registered capital structure; and
- (iv) providing loan to any third party or incurring any liability from any third party which is not within the usual and normal scope of business of the OPCO.

Therefore, due to the relevant restrictive provisions in the Exclusive Purchase Right Agreement, the potential adverse effect on WFOE and the Company in the event of any loss suffered from the OPCO Group can be limited to a certain extent.

According to the articles of association of Chun'an Huaying, Kaihua Huijin (collectively the "Subsidiaries"), profits (if any) shall be shared among shareholders on a pro rata basis. As the Subsidiaries are only registered with the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理局) with insignificant capital contribution and have yet commenced any business, the Subsidiaries do not generate any profit that can be distributed.

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As confirmed by PRC Legal Adviser, the Subsidiaries are only registered with the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商管理行政管理局) with insignificant capital contribution and have yet commenced any business, the Subsidiaries do not generate any profit that can be distributed.

Further, the Company has no intention to commence business of the Subsidiaries due to: (a) the fact that the shareholders have only made insignificant capital contribution; (b) the Company had been trying but still unable to reach consensus on business development strategy with the other 49% shareholders of the Subsidiaries as of the date of this circular; and (c) the Stock Exchange does not allow VIE structure for business which are not restricted or prohibited business for foreign investors under PRC Laws. As confirmed by the PRC Legal Adviser, both of the Subsidiaries are not engaged in restricted or prohibited business for foreign investors. For the foregoing reasons, the Company (via OPCO) has intention to dispose of its entire interest in the Subsidiaries to an independent third party. Accordingly, the Subsidiaries will not generate any profit that can be distributed to the WFOE through the VIE Agreements. The Company undertakes not to commence any business of the Subsidiaries prior to the disposal of or transfer its entire interest in the Subsidiaries.

The Company has no intention to acquire the remaining 49% interest in the Subsidiaries from the other shareholders of the Subsidiaries. As mentioned above, the Company (via the OPCO) has intention to dispose of its entire interest in the Subsidiaries to an independent third party.

For the reasons stated above, the Company decided to dispose of its entire interest in the Subsidiaries to an independent third party via the OPCO.

As confirmed by the PRC Legal Adviser, any change in shareholding structure of a PRC company must be registered with the relevant PRC government department to be valid under the PRC Laws. However, as advised by the PRC Legal Adviser, the OPCO is unable to dispose of its interest in the Subsidiaries at this stage due to policy reasons of the PRC government. The PRC Legal Adviser interviewed and consulted Chun'an District Market Superintend Management Bureau (淳安縣市場監督管理局) and Kaihua County Market Supervision Administration (開化縣市場監督管理局) in respect of the intended disposal of OPCO's equity interest in the Subsidiaries, such bureau and administration confirmed that:

- (a) pursuant to the implementation notice about remediation works for the issue of financial risks on internet issued by the Office of State Council of PRC (國務院辦公廳關於印發互聯網金融風險專項整治工作實施方案的通知) and current policy of the PRC government to strengthen regulation on internet finance industry, special attention will be drawn to company names containing words such as "finance" and "internet finance" during the period when remediation work is being carried out;
- (b) as the Subsidiaries fall within the above scope of companies under special attention, change of such business registration applications has been suspended, including registration for the change of shareholding structure.

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The PRC Legal Adviser is of the view that Chun'an District Market Superintend Management Bureau (淳安縣市場監督管理局) and Kaihua County Market Supervision Administration (開化縣市場監督管理局) are the competent and authorized government authorities to interpret the relevant PRC Laws, to handle business registrations of the Subsidiaries, including the processing of any change of business registration application, and to give the abovementioned oral confirmation.

Although the effect of the VIE Agreements covers the Subsidiaries to ensure the VIE Agreements are narrowly tailored, the Subsidiaries will be sold subject to change in PRC government policy which suspends the processing of business registration application with respect of the change of shareholders of the Subsidiaries.

Based on the above analysis and advice by the PRC Legal Adviser, the Directors are of the view that the Company (via the OPCO) is unable to dispose of its interest in the Subsidiaries as of the date this circular. The Company further undertakes to the WFOE that:-

- (a) with the assistance of its PRC Legal Adviser, it will consult the competent authorities from time to time regarding any change on the abovementioned business registration policy;
- (b) it will procure the OPCO to dispose of or transfer its entire interests in the Subsidiaries once the restriction on or suspension of the business registration applications in relation to the Subsidiaries are removed; and
- (c) it will not commence any business of the Subsidiaries nor inject any further capital into the Subsidiaries.

As advised by the PRC Legal Adviser, the Subsidiaries are intended to serve as a customer service point and do not engage in P2P Financing Information Business (網貸信息中介業務). But due to the reasons as set out above, the Company has intention to dispose of the 51% interest in the Subsidiaries via the OPCO and will procure that no business shall be carried out by the Subsidiaries.

The Company has no intention to commence business of the Subsidiaries. The Company (via OPCO) has intention to dispose of its entire interest in the Subsidiaries to an independent third party. Due to current policy reasons of the PRC government to strengthen regulation on internet finance industry and suspension of the processing of business registration application with respect of the change of shareholders of the Subsidiaries, the Company (via the OPCO) is unable to dispose of or transfer its interest in the Subsidiaries as of the date of this circular. The Company will procure the OPCO to dispose of its entire interest in the Subsidiaries when PRC government policy allows the registration of change of shareholding structure of the Subsidiaries.

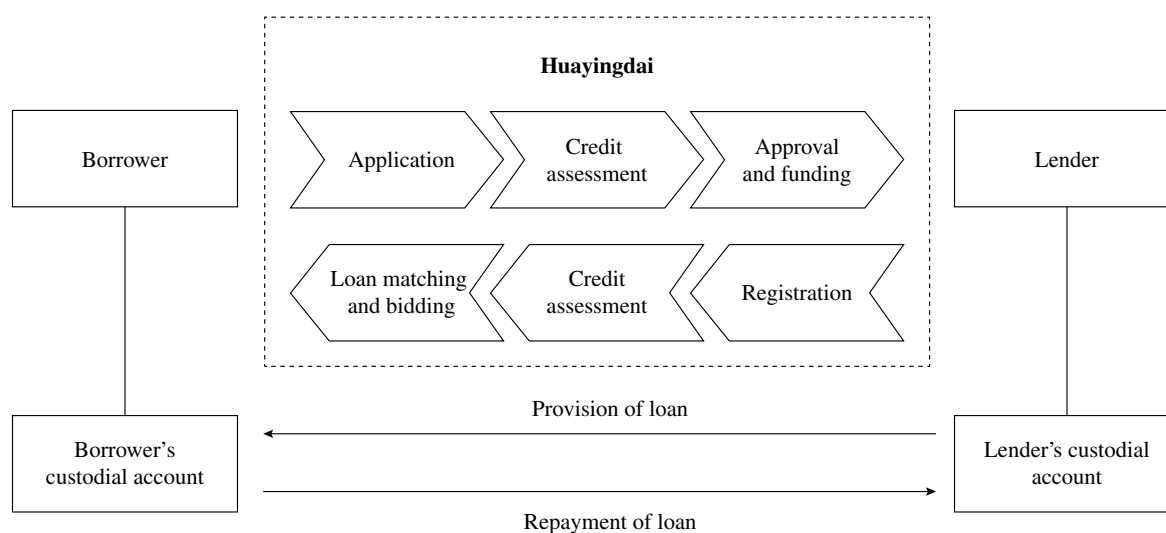
Business and operation of the OPCO

The OPCO is primarily engaged in the P2P Financing business and operated as an online lending information intermediary institution (the “**P2P Financing Information Business**”). As advised by the PRC Legal Adviser and set out below, the OPCO has obtained the ICP License under applicable laws and regulations in the PRC to operate the P2P Financing Information Business. The ICP License currently obtained by the OPCO has a term of five years, which was issued on 12 July 2016 and will expire on 11 July 2021.

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The OPCO operates an online platform in provision of information services including information gathering, information publication, credit assessment, information exchange and lender-borrower matching for both lenders and borrowers to facilitate P2P loans. The online lending platform named 華贏貸 (www.huayingdai.net) (“**Huayingdai**”) was online since 15 April 2015, which only serves as an information platform for borrowers and lenders of P2P loans and does not directly involve in the lending activities.

The following diagram illustrates a typical transaction process for borrowers and lenders on Huayingdai:



The transaction process on Huayundai provides the borrowers with a safe and convenient channel of loan application and funding. In general, potential borrowers who in need of funds will first register a user account by providing basic personal information including identity card number and mobile phone number as well as personal finance related information to form their credit profiles. Registered users will then be assigned a custodial account and can submit a loan application through an online credit line. The application will be subject to credit and risk review and assessment by the risk control system. Following the credit assessment, the OPCO Group may approve the loan application based on the applicant's credit grade or decline the loan application. Once the loan application is approved, necessary information of such loan request will be posted online to invite investors for bidding. In this way, qualified borrowers can conveniently locate potential investors which suit their profiles and credit needs in raising funds.

On the other hand, Huayundai also provides a streamlined and standardized experience for lenders. Similar to borrowers, lenders who wish to make investment are also required to register a user account by providing simple information including identity card number, mobile phone number and bank account. They will be subject to credit assessment before making their first investment through the platform, and will be categorised into various investor types based on various factors including their investment experience and risk tolerance. After passing the assessment, potential lenders can compare and choose their desired type of loan projects which match their risk preference and investment needs through the matching function of Huayundai and top up money in the lender's custodial account through online banking. Lenders who are interested in a loan project will go through a bidding process if necessary, and

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the successful lender will enter into a loan agreement with borrower and the OPCO. The funds are then released from lender's custodial account to the borrower's custodial account, and the borrower repay the principal and interests of the loan by transferring funds from borrower's custodial account to lender's custodial account.

During the P2P lending process, the OPCO only acts as information intermediary for borrowers and lenders of online P2P lending and are not a party to the lending itself. No credit-related services are provided by the OPCO in the P2P lending, and the OPCO only charge services fees from borrowers for provision of information services, which are the major source of revenue of the OPCO. All risks in relation to the P2P lending are borne by lenders.

During the Track Record Period and up to the Latest Practicable Date, approximately 23,000 loan transactions have been handled by the OPCO, with the total loan amount amounted to approximately RMB6.9 billion.

Regulatory and industry framework of the P2P financing business

Regulations Relating to Online Consumer Finance Services

Due to the relatively brief history of the online consumer finance industry in China, the regulatory framework governing our industry has not developed comprehensively. Even though few specific regulations on online consumer finance industry have been issued in the past two years, detailed guidance and interpretation has yet to be promulgated by the regulators.

The P2P industry in China is highly competitive and the OPCO Group competes with other P2P lending platforms and online consumer finance marketplaces. The OPCO Group also competes with traditional financial institutions, including credit card issuers, consumer finance business units in commercial banks and other consumer finance companies.

P2P financing business is regarded as part of the consumer finance market. With the increasing credit need of Chinese people, coupled with the ineffectiveness and low penetration of traditional financial institutions serving this need, the consumer finance market in China has undergone substantial expansion in recent years and the Group considered that there is considerable promising potential for the market for this market going forward.

Compared with banks and other traditional offline lending players, online consumer finance players extend the benefits of flexibility and convenience to consumers with their smaller-size and shorter-term loan and faster and smoother transaction experiences.

There are three key drivers for the growth of the online consumer finance market. First, the expansion of this market depends on the continuous increase of disposable income of the Chinese people. Rising disposable income represents higher ability to spend and prompts higher level of consumption demand. Second, Chinese consumers' increasing open attitude towards taking credit to finance their consumption is also critical in realizing the market's potential. Third, higher mobile and internet penetration will further propel higher growth for the online consumer finance sector.

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Since early 2018, the PRC regulators have started to clamp down the scams and risky behaviors in the consumer financing market and tighten the control over P2P financing business by implementing certain financial deleveraging measures, leading to a decrease in fund supply and an increase in financing cost. It is also expected that a centralized licence scheme will be introduced by the PRC regulators to bar those P2P platforms unable to pass the requirements from operating. Under the tightened credit environment and monetary policy in the PRC, the risk of default by the P2P borrowers becomes higher as they fail to generate sufficient cash flows to repay P2P lenders, resulting in a general decline in the profit of P2P industry. As such, the P2P industry in the PRC has of late come under intense pressure, and some P2P companies with defects in management, cost control and risk control as well as shady practice have been forced to exit the market.

However, the fall in number of P2P platforms does not signify an overall collapse in the P2P industry in the PRC, and P2P platforms with sound business practices and effective risk control system can actually benefit from the new regulatory environment which brings greater clarity and certainty to the market supervision and contributes to a more positive and benign development of the P2P financing industry. The elimination of risky and defective P2P platforms will improve the overall image of the consumer financing industry and enhance the confidence of both P2P borrowers and lenders. Given the increasing credit need of Chinese people, coupled with the ineffectiveness and low penetration of traditional financial institutions serving this need, the Directors believe there is still great demands and considerable potential in the P2P financing market in the PRC in the foreseeable future, and the P2P platforms which survive the regulatory crisis will be able to embrace more business opportunities. As such, our Directors believe that the recent series of tightened regulatory actions will not have significant impact on the OPCO Group and the Company and will not materially and adversely affect their operation and financial position in operating the P2P financing business. On the contrary, our Directors believe that entering into the VIE Agreements by the Company is fair and reasonable and in the interest of the Company and its shareholders as a whole under the new regulatory environment, considering the steady operation and healthy financial position of the OPCO since its establishment. For the details of the commercial benefits of adopting the VIE Structure, please refer to the section headed “Letter from the Board – Commercial Benefits of the Transactions” in this circular.

Regulations on Online Lending Information Services

Guidelines

On 18 July 2015, the Guidelines for Promoting the Healthy Development of Internet Finance (《關於促進互聯網金融健康發展的指導意見》), (the “**Guidelines**”), were promulgated by ten PRC regulatory agencies, including the PBOC, the MIIT and the CBRC. The Guidelines define online Peer-to-Peer (or P2P) lending as direct loans between individuals through an online platform, which is under the supervision of the CBRC, and governed by the PRC Contract Law, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People’s Court. Pursuant to the Guidelines, a company that provides online lending information services shall make it clear its nature of being an information intermediary and provide information services rather than provide credit enhancement services or engage in illegal fund-raising, which further requires such company to separate funds of the borrowers and the investors from its own funds.

LETTER FROM THE BOARD

Rectification Plans Related to Internet Financial Risks

On 12 April 2016, the General Office of the State Council issued the Notice of General Office of the State Council on the Promulgation of Implementation Plan for Special Rectification of Internet Financial Risks (《關於印發〈互聯網金融風險專項整治工作實施方案〉的通知》), which emphasizes that P2P platforms shall specify their nature as information intermediaries and can never engage in certain activities, including but not limited to, setting up capital pool, extending loans and illegal fund raising. In addition, without approval from competent regulator, P2P platforms shall not engage in financial business activities such as asset management, debt or equity transfer, and high-risk allocation in security markets. Furthermore, P2P platforms are required to segregate assets of lenders and borrowers in qualified banks as depositary institutions from their own assets. Then PBOC, CBRC, China Securities Regulatory Commission, China Insurance Regulatory Commission and the State Administration for Industry and Commerce jointly conducted a thorough review to identify and rectify the illegal practices in the Internet finance industry, with an aim to promote the standardized and orderly development of Internet finance. All levels of government shall establish a group for the implementation and rectification plan, appoint the person in charge of finance affairs as the group leader, and organize the special rectification work in the region.

On 13 April 2016, the CBRC and 14 other bureaus, departments and institutions issued the Notice on Issuing the Implementation Plan for Specific Rectification on Risks in P2P Lending (《關於印發P2P網絡借貸風險專項整治工作實施方案的通知》). By categorizing the market players based on their different levels of legal compliance, the CBRC started to regulate the online P2P lending service industry.

On June 16, 2016, the General Office of the People's Government of Zhejiang Province issued the Circular on Printing and Distributing the Execution Plan of Zhejiang Province Rectification Activity Addressing Internet Finance-related Risks (《關於印發〈浙江省互聯網金融風險專項整治工作實施方案〉的通知》), specifying detailed organization and steps for the rectification addressing Internet finance-related risks in Zhejiang Province.

Interim Measures

On 17 August 2016, CBRC, MIIT, Ministry of Public Security and the State Office of Internet Information jointly issued the Interim Measures on the Management of Business Operations of Online Lending Information Intermediaries (《網絡借貸信息中介機構業務活動管理暫行辦法》) (the “**Interim Measures**”). The Interim Measures provides for detailed implementation rules for the regulatory principles set out in the Guiding Opinion. The Interim Measures also define the online lending information service providers as financial information intermediaries.

Pursuant to the Interim Measures, online lending information service providers shall complete registration with local financial regulatory authority and apply for appropriate telecommunication business license in accordance with relevant rules issued by competent telecommunication authority. The Interim Measures also require the online lending information service providers to substantially cover “online lending information intermediary” in its business scope filed with the local registration regulatory authority.

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According to the Interim Measures, online lending information service providers shall not engage in or accept entrustment to engage in certain activities, including, (i) financing their own operations with the funds of lenders; (ii) accepting or collecting directly or indirectly the funds of lenders; (iii) providing lenders with a guarantee or promise to guarantee principal and interest thereon directly or in disguised form; (iv) publicizing or promoting financing projects by themselves or by delegating or authorizing a third party at physical places other than by electronic means such as the Internet, landlines, mobiles etc.; (v) extending loans, except otherwise provided by applicable laws and regulations; (vi) splitting the term of any financing project; (vii) offering wealth management and other financial products by themselves to raise funds, and selling as agent bank wealth management, securities company asset management, fund, insurance or trust products and other financial products; (viii) conducting asset securitization business or transferring of creditors' rights in the forms of assets packaging, asset securitization, trust asset, fund shares etc.; (ix) engaging in any form of mixture, bundling or agency with other institutions in investment, agency in sale, brokerage and other business except as permitted by laws, regulations and relevant regulatory provisions on online lending; (x) falsifying or exaggerating the truthfulness and earnings outlook of financing projects, concealing the defects and risks of financing projects, making false advertising or promotion, etc. by using ambiguous words or other fraudulent means, fabricating or spreading false or incomplete information, impairing the business reputation of others or misleading lender or borrowers; (xi) providing information intermediary services for the high-risk financing with the borrowed funds to be used for investment in stocks, over-the-counter fund distribution, futures contracts, structured funds and other derivative products; (xii) engaging in a business such as crowd-funding in equity; and (xiii) other activities prohibited by laws and regulations.

The Interim Measures require that online lending information service providers shall restrict the maximum balance of fund borrowed by the same borrower on the same online lending information intermediary platform as well as on several such online lending information intermediary platforms so as to prevent credit concentration risks. The maximum balance of fund borrowed by any individual on the same online lending information intermediary lending platform shall be RMB200,000, and the maximum total balance of the fund borrowed by the same individual on several lending information intermediary platforms shall be RMB1,000,000. The maximum balance of fund borrowed by any entity or other kind of organization on the same online lending information intermediary platform shall be RMB1,000,000, and the aggregate maximum total balance of fund borrowed by any entity or other kind of organization on all online lending information intermediary platforms shall be RMB5,000,000.

For the protection of investors and borrowers, the Interim Measures require that online lending information intermediary institutions (i) separate their own capital from funds received from lenders and borrowers and (ii) select a qualified banking financial institution as their funding depository institution, which shall perform depository and administration responsibilities as required. In addition, the Interim Measures provide for other miscellaneous requirements for online lending information intermediary institutions, including but not limited to, risk assessment and disclosure, auditing and authentication, industry association, reporting obligations, information security and disclosure and legal liabilities.

With respect to the online lending information intermediary platforms established prior to the implementation of the Interim Measures, provided that such platforms have not been in compliance with the applicable requirements of the Interim Measures, the competent local financial regulatory department would require such platforms to make correction or rectification within a 12-month transition period specified by the Interim Measures.

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Pursuant to the Interim Measures, if an online lending information service provider violates any applicable laws, regulations or relevant regulatory provisions relating to online lending information services, sanctions could be imposed by the local financial regulatory departments or other relevant regulatory departments, including, among others, supervision interviews, regulatory warning, correction order, condemnation, credit record modification, fine up to RMB30,000, and criminal liabilities if the act constitutes a criminal offense.

As confirmed by the Company, the OPCO has commenced its business prior to the issue of the Interim Measure. As advised by the PRC Legal Adviser, the national financial regulatory authority of PRC (國家金融監管部門) has issued an internal notice to the local financial regulatory authorities in early April 2018, pursuant to which the issue of details for the registration for online lending information service providers have been temporarily suspended. Accordingly, the registration of online lending information service providers in the PRC has not been officially commenced.

As advised by the PRC Legal Adviser, the OPCO is in the process of completing such registration with the local financial regulatory authority. As confirmed by the PRC Legal Adviser, OPCO submitted its application for filing registration to the relevant local financial regulatory authority, Hangzhou Chun'an County Financial Work Leading Group Office (杭州市淳安縣金融工作領導小組辦公室), in May 2018.

The Company expects that OPCO will complete filing registration with the relevant local financial regulatory authority in around early 2019, subject to the decision of the competent authority in the PRC.

As confirmed by the PRC Legal Adviser, the local financial regulatory authority did not request the OPCO to suspend its operation of online lending information services business or impose penalty on the OPCO, and the OPCO has obtained legal and valid ICP Licence from the ZJCA. As the details for registration of online lending information service providers are yet to be released, the PRC Legal Adviser is unable to foresee any unfavorable factors that may affect the normal business operation of the OPCO. The Company will keep monitoring the relevant regulatory changes, and in any event will keep the Shareholders informed and make appropriate disclosures in the event of any material adverse change happens.

In accordance with the Guidelines and the Interim Measures, the CBRC, the MIIT and the State Administration for Industry and Commerce jointly issued the Circular on Printing and Distributing the Guidelines on the Filing-based Administration of the Online Lending Information Intermediaries (《關於印發〈網絡借貸信息中介機構備案登記管理指引〉的通知》) on 28 November 2016, setting out detailed rules on the filing-based administrative regime of online lending information intermediaries that require local financial regulators to register, publicize and archive the basic information of online lending information intermediaries within their respective jurisdictions.

Custodian Guidelines

In accordance with the Guidelines and the Interim Measures, the CBRC issued the Circular on Printing and Distributing the Guidelines on the Administration of Online Lending Funds-related Custody Services (《關於印發〈網絡借貸資金存管業務指引〉的通知》), or the Custodian Guidelines on February 22, 2017. The Custodian Guidelines further clarifies the custodian requirement for the funds of investors and borrowers held by online lending information service providers. The Custodian Guidelines specifies that an online lending information service provider may only designate one qualified commercial bank as

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its fund custodian institution for the funds of investors and borrowers held by it, and further clarifies detailed requirements and procedures for setting up custody accounts with commercial banks. To the extent that the relevant online lending information service providers and commercial banks are not in full compliance with the Custodian Guidelines, they are required to make correction or rectification within a six-month rectification period specified by the Custodian Guidelines.

Disclosure Guidelines

In accordance with the Guidelines and the Interim Measures, the CBRC further issued the Circular on Printing and Distributing the Guidelines on Information Disclosure of Business Activities of the Peer-to-Peer Lending Information Intermediaries (《關於印發〈網絡借貸信息中介機構業務活動信息披露指引〉的通知》), (the “**Disclosure Guidelines**”), on 23 August 2017. The Disclosure Guidelines further clarified the disclosure requirements for online lending information service providers. Pursuant to the Disclosure Guidelines, online lending information service providers should disclose certain information on their websites and all other internet channels, including mobile applications, WeChat official accounts or Weibo, including, among others (i) the record-filing and registration information, the organization information, the examination and verification information, and transaction related information, including transactions matched through the online lending information service providers for the previous month, all of which shall be disclosed to the public; (ii) the basic information of the borrowers and the loans, the risk assessment of such loans, and the information of the outstanding transactions matched, all of which shall be disclosed to the investors; and (iii) any event that would result in a material adverse effect to the operations of online lending information providers, which shall be disclosed to the public within 48 hours upon occurrence. The Disclosure Guidelines also require online lending information service providers to record all the disclosed information and retain such information for no less than five years from the date of the disclosure. To the extent that the relevant online lending information service providers are not in full compliance with the Disclosure Guidelines, they are required to make correction or rectification within a six-month rectification period starting from the date the Disclosure Guidelines was issued.

Circular 141

On December 1, 2017, the Head Office for Special Rectification of Online Finance Risk and Head Office for Special Rectification of Peer-to-Peer Online Lending jointly issued the Notice on Standardization and Rectification of Cash Loans Business (《關於規範整頓「現金貸」業務的通知》(整治辦函[2017]141號)) (the “**Circular 141**”). The Circular 141 further regulates that information intermediaries for online P2P lending: (i) shall not match borrowing with lending to realize direct lending on the interest rates that did not comply with relevant laws and provisions; shall not deduct the interest, commission fee, management fee or margin from the principal or setting high overdue interest, overdue fine, penalty interest, etc; (ii) shall not outsource core business including customers information collection, customers identifying and screening, credit assessing and opening accounts for customers etc; (iii) shall not match banking financial institutions for involving in P2P online lending business; and (iv) shall not provide online lending services for students or borrowers who are not capable of repayment in the scope of their marketing efforts, shall not provide online lending services for property down payment loans, and shall not provide online lending services for borrowing without specified purpose. Furthermore, the Circular 141 prohibited the small-amount lending corporations from raising money through information intermediaries for online lending.

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Circular 57

On 8 December 2017, the Head Office for Special Rectification of Peer-to-Peer Online Lending released Notice on The Improvement and Acceptance of the Peer-to-Peer Online Lending Risk (《關於做好P2P網絡借貸風險專項整治整改驗收工作的通知》) (the “**Circular 57**”). The Circular 57 requires local financial regulator, local CBRC, the People’s Bank local branch, local public security, local communication administrative department and local AIC should jointly inspect and accept whether an internet lending information intermediary comply with the Interim Measures. The online lending information intermediary can only be filed records (“**P2P Filing**”) with the local financial regulator after receiving acceptance certificate or document issued jointly by local financial regulator and local CBRC. Normally, the P2P Filing should be completed before April 2018 according to the Circular 57, which means our Company must acquire the acceptance certificate or document from local financial regulator and local CBRC before April 2018. The Circular 57 forbidden four credit assignment models, including: (i) providing asset securitization services or transfer creditor’s rights in form of packaged assets, securitized assets, trust assets or fund shares; (ii) credit transferred from related individual party of the P2P company to the lender, the lending money normally from online lending information intermediaries or their related parties; (iii) current wealth management products and regular wealth management products related credit assignment products; and (iv) using credit right from the peer-to-peer lending platform as a pledge to borrow money from other lenders. The Circular 57 further requires that online lending intermediaries set up custody accounts with qualified banks that have passed certain testing and evaluation procedures run by the National Online Lending Rectification Office to hold customer funds. The Circular 57 requires that the online lending information intermediaries to discontinue to set aside additional fund as risk reserve funds or originate new risk reserve funds. In addition, the existing balance of risk reserve fund shall be gradually reduced.

Regulations on Loans between Individuals

The PRC Contract Law confirms the validity of loan agreement between individuals and provides that a loan agreement becomes effective when an individual lender provides loan to an individual borrower provided that the interest rates charged under the loan agreement do not violate the applicable provisions of the PRC laws and regulations.

Private Lending Judicial Interpretations

In accordance with the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases issued by the Supreme People’s Court on August 6, 2015, or the Private Lending Judicial Interpretations, which came into effect on September 1, 2015, private lending is defined as financing between individuals, legal entities and other organizations. Loans funded by financial institutions which are licensed by financial regulatory authorities are not private lending transactions. When private loans between individuals are paid by wire transfer, the loan contracts between individuals came into effect upon the deposit of funds to the borrower’s account. If either the lender or the borrower is not a natural person, the loan contracts become applicable effective upon execution of the loan contract, unless otherwise agreed by the parties or otherwise provided by laws and administrative regulations. In the event that the loans are made through an online consumer finance lending platform and the platform only provides intermediary services, the courts will dismiss the claims of the parties

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concerned against the platform demanding the repayment of loans by the platform as guarantors. However, if the online consumer finance service provider guarantees repayment of the loans as evidenced by its web page, advertisements or other media, or the court is provided with other proof, the lender's claim alleging that the online consumer service provider assumes the obligations of a guarantor will be upheld by the courts.

The Private Lending Judicial Interpretations also provide that agreements between lenders and borrowers on loans with interest rates below 24% per annum are valid and enforceable. As to the loans with interest rates per annum between 24% (exclusive) and 36% (inclusive), if the interest on the loans has already been paid to the lender, and so long as such payment has not damaged the interest of the state, the community and any third parties, the courts will turn down the borrower's request to demand the return of the excess interest payment. If the annual interest rate of a private loan is higher than 36%, the agreement on the excess part of the interest is invalid, and if the borrower requests the lender to return the part of interest exceeding 36% of the annual interest that has been paid, the courts will support such requests. The interest rates of all our loan products are below 36% and certain loans financed by our investment programs have interest rates that exceed 24%. In addition, on August 4, 2017, the Supreme People's Court issued the Circular of Several Suggestions on Further Strengthening the Judicial Practice Regarding Financial Cases, which provides, among others, that (i) the claim of the borrower under a financial loan agreement to adjust or cut down the part of interest exceeding 24% per annum on the basis that the aggregate amount of interest, compound interest, default interest, liquidated damages and other fees collectively claimed by the lender is overly high shall be supported by the PRC courts; and (ii) in the context of Internet finance disputes, if the online lending information intermediary platforms and the lender circumvent the upper limit of the judicially protected interest rate by charging intermediary fee, it shall be determined as invalid.

The Circular 141 further stipulates that the comprehensive cost of funds collected by various institutions in the form of interest rates and various fees shall comply with the provisions of the Supreme People's Court on interest rates of private loans; and the Circular 141 also prohibits the issuance or facilitation of loans that violate the provisions on the cap on rates.

Pursuant to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》), which governs the disputes involving private loans, PRC courts shall uphold any interest rate agreed between the borrower and the lender if the annual interest rate under the agreement is below 24%. If the annualized interest rate agreed exceeds 36%, the agreed interest amount in excess of a 36% annualized interest rate shall be invalid. Where the borrower requests the lender to return the part of interest exceeding 36% of the annualized interest that has been paid, PRC courts shall uphold such request.

PRC Contract Law

In addition, pursuant to the PRC Contract Law, a creditor may assign its rights under an agreement to a third party, provided that the debtor is notified. Upon due assignment of the creditor's rights, the assignee is entitled to the creditor's rights and the debtor must perform the relevant obligations under the agreement for the benefit of the assignee. We also allow investors to transfer the loans they hold to other investors before the loan reaches maturity. In addition, according to the PRC Contract Law, an

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intermediation contract is a contract whereby an intermediary presents to its client an opportunity for entering into a contract or provides the client with other intermediary services in connection with the conclusion of a contract, and the client pays the intermediary service fees. Our business practice of connecting our institutional funding partners and other investors, with individual borrowers may constitute intermediary service, and our service agreements with borrowers and investors may be deemed as intermediation contracts under the PRC Contract Law. Pursuant to the PRC Contract Law, an intermediary must provide true information relating to the proposed contract. If an intermediary conceals any material fact intentionally or provides false information in connection with the conclusion of the proposed contract, which results in harm to the client's interests, the intermediary may not claim for service fees and is liable for the damages caused.

Customers of the OPCO

The customers of the OPCO consist of borrowers and lenders of P2P loan.

All borrowers of the OPCO Group are individual natural persons with funding demands, which are pre-screened by other platforms as high-credibility borrowers and referred to the OPCO Group under the collaboration arrangement. The online platform currently does not accept referrals of corporate borrowers. During the Track Record Period and as at the date of this submission, primarily all borrowers are sourced from construction sector, and the OPCO Group is planning to tap into other channels in the future by cooperating with other types of enterprises such as house rental agencies and house renovation companies.

Financial Information of the OPCO Group

Set out below is the financial information of the OPCO Group extracted from its audited financial statements as of 31 December 2016 and 31 December 2017 and its unaudited financial statements as of 31 August 2018:

	As of 31 December 2016	As of 31 December 2017	As of 31 August 2018
	(audited)	(audited)	(unaudited)
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	10,449	21,352	10,414
Net profit/(loss) before tax	(401)	851	(984) ^(note)
Net loss after tax	(401)	(365)	(2,036)
Net asset	8,037	7,672	6,545

Note: The increase in net loss of the OPCO Group in 2018 was primarily attributable to the increase in the total expenses as a result of the incentive programme targeting the lenders who provided loans through the online platforms operated by the OPCO Group for the first time. This is because currently the lenders are the major funding source and the ultimate risk-taker in P2P online lending in the PRC. As such, the incentive scheme was adopted by the OPCO to attract new potential lenders to provide loans through the Huayingdai online platforms to ensure a stable and adequate funding source to meet existing and potential P2P lending demands.

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As the Subsidiaries have yet commenced any business, there is no profit nor revenue generated. The net asset of Kaihua Huijin as of 31 December 2016 and 31 December 2017 and as of 31 August 2018 are approximately RMB1,618,000, RMB1,430,000 and RMB1,430,000 respectively. The net asset of Chun'an Huaying as of 31 December 2016 and 31 December 2017 and as of 31 August 2018 are approximately RMB301,000, RMB301,000 and RMB301,000 respectively. The Company confirms that the net assets of Kaihua Huijin and Chun'an Huaying as of 31 August 2018 are RMB1,430,000 and RMB301,000 respectively which are bank deposits, and the reason for the decrease in net asset of Kaihua Huijin from RMB1,618,000 as at 31 December 2016 to RMB1,430,000 as at 31 December 2017 was due to the expenses incurred for engaging independent institution to conduct feasibility study on the feasibility of commencing value-added telecommunications business in Kaihua. According to the feasibility study report, it is not feasible and not cost effective to commence value-added telecommunications business in Kaihua due to the limitation on market size and market demand, lack of professional talents and limitation of basic infrastructure in Kaihua.

BACKGROUND AND REASONS FOR USE OF THE VIE STRUCTURE

Background

The Group is principally engaged in (i) the garment sourcing business and (ii) provision of financial services which include, among others, asset management, finance lease, pawn, and money lending business. The Board considers that the demand for financial services is significant and the industry is vibrant in the PRC and Hong Kong hence the financial services business segment will provide a good opportunity for the Group to diversify its existing business portfolio, broaden its source of income, and enhance value to the Shareholders, which is expected to benefit the Company and the Shareholders as a whole.

With the booming of the Fintech market, the Group sees the opportunities and intends to become one of the pioneers entering into the P2P Financing industry. The Directors consider that the P2P Financing Information Business would provide an opportunity for the Group to explore the possibility of the P2P Financing industry as well as to deepen the reach of the Group in the financial services business segment. The Directors are of the view that P2P Financing is a business with growth potential, and as Internet securities continue to improve in recent years, financial products transacted over the Internet will continue to gain popularity due to the convenience and privacy it provides. The Directors believed that the relevant experience in the money lending industry of the Group can promote synergies to the P2P Financing Information Business of the OPCO Group.

However, as outlined below, since the relevant business is classified as restricted foreign investment under the applicable PRC Laws and there is no clear guidance on or interpretation of any applicable Qualification Requirements (as defined below), the Group cannot hold any direct interest in the OPCO, which currently holds and will hold certain licences and permits required for the provision of the “profitable internet information services”.

Laws and regulations relating to the profitable internet information services in the PRC

The following is a summary of the principal laws and regulations that govern the profitable internet information services in the PRC.

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Pursuant to the Notice of the General Office of the Ministry of Commerce on the Relevant Issues concerning the Examination, Approval and Administration of Projects of Foreign Investment in Internet and Vending Machine Sales (商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知) (the “**Notice**”) issued by the MOFCOM in August 2010, foreign-invested enterprises directly engaging in the sales of its own products with its online platform have to report to the relevant authorities for record, while foreign-invested enterprises providing online services for other parties with its online platform have to apply for the ICP Licence from the relevant authorities.

The Administrative Measures on Internet Information Services* (互聯網信息服務管理辦法) (the “**Measures**”) issued by PRC State Council on 25 September 2000 and amended on 8 January 2011 regulates the provision of internet information services. Under the Measures, profitable internet information service providers must obtain the value-added telecommunications business operation licence* (互聯網信息服務增值電信業務經營許可證), the ICP Licence, from the relevant authorities before engaging in the provision of profitable internet information services in the PRC.

According to the Catalogue of Telecommunications Business (2015)* (電信業務分類目錄 (2015年版)), the information service business* (信息服務業務) falls under the category of “value-added telecommunications business”* (增值電信業務) and is regarded as a “restricted” business according to the Guiding Catalogue of Industries for Foreign Investment (2017 Amended)* (外商投資產業指導目錄 (2017年修訂)) in which it provides that value-added telecommunications business (other than the e-commerce) is restricted for foreign investors. The foreign ownership in such business cannot exceed 50%. Accordingly, the WFOE is not eligible to apply for the ICP Licence for the value-added telecommunications business (other than the e-commerce).

According to the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (2016 Amended)* (外商投資電信企業管理規定 (2016年修訂)), which were promulgated by the PRC State Council on 11 December 2001 and amended on 10 September 2008 and on 6 February 2016 respectively, (i) the ratio of investment by a foreign investor in a company providing value-added telecommunications services shall not exceed 50%, and (ii) a foreign investor who invests in a value-added telecommunications services company shall have a good track record and experience in providing value-added telecommunications business (the “**Qualification Requirement**”) in the PRC. Currently, no clear guidance as to the interpretation of the Qualification Requirement has been issued.

The Circular regarding Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business* (信息產業部關於加強外商投資經營增值電信業務管理的通知) (the “**Circular**”) issued by the PRC Ministry of Information Industry* (中華人民共和國信息產業部) on 13 July 2006 reiterates the regulations on foreign investment in telecommunications business. Under the Circular, a foreign investor who wishes to conduct any value-added telecommunications business in the PRC must first set up a foreign-invested enterprise and obtain an ICP Licence. The Circular further provides that a domestic company holding an ICP Licence is prohibited from leasing, transferring or selling the licence to foreign investors in any form, and providing any assistance to foreign investors for illegal operation of telecommunications business in the PRC.

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Based on the consultation with an officer of Zhejiang Communications Administration(中華人民共和國浙江省通信管理局) (the “ZJCA”), the officer confirmed that the steps about to be taken by the Company e.g. establishing overseas offices, holding overseas domain names and conducting operation websites and other businesses in relation to value-added telecommunication service are generally regarded as relevant factors to prove that the Qualification Requirements are fulfilled, subject to a substantive examination by the ZJCA in accordance with the approval procedures under the PRC Laws. As confirmed by the PRC Legal Adviser, ZJCA is the competent and authorized government authority to regulate value-added telecommunication service business in Zhejiang, to interpret the relevant PRC Laws and responsible for the issue of ICP License to the OPCO. The PRC Legal Adviser has advised that, as of the date of the PRC legal opinion, no applicable PRC laws, regulations or rules provided clear guidance or interpretation on the Qualification Requirements of value-added telecommunication service business.

Based on the advice by the PRC Legal Adviser and confirmed by the ZJCA, the Company currently does not meet the Qualification Requirements as the Group does not possess the relevant experience in operating value added telecommunication business and any track record of such business. Therefore, the Company cannot hold the equity interest directly.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, the Company will gradually build up the track record of overseas value-added telecommunications business operations for the purposes of being qualified, as early as possible, to acquire a majority equity interests when the relevant PRC Laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in the PRC. The Company is planning to expand the overseas value-added telecommunications business through the overseas subsidiaries. The Company will take the following measures to meet the Qualification Requirements:

- (a) the Company will apply and register trademarks outside the PRC for the promotion of the P2P Financing Information Business overseas;
- (b) the Company will register a domain name outside the PRC for display and promotion of the P2P Financing Information Business overseas; and
- (c) the Company will commence feasibility study on the further development of marketing to overseas markets and consider potential investments or acquisitions in order to optimize our strategic plan for expanding its current businesses to overseas markets. The Company will consider commencing feasibility study on overseas market in Asia and decide which specific market to develop after completion of the feasibility study.

Subject to the discretion of the competent authority on whether the Group has fulfilled the Qualification Requirements, the PRC Legal Advisor is of the view that the above steps taken by the Company are reasonable and appropriate for gradually building up a track record to meet the Qualification Requirements as the Company has experience in operating value-added telecommunications in overseas markets, which is in accordance with the PRC Laws.

The Company would endeavour to adopt the measures as mentioned above and it is believed that they would be able to unwind the VIE Agreements and hold interests in the OPCO directly in the event that the foreign ownership restriction on the OPCO’s business is removed but the Qualification Requirements remain.

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The Company would keep itself updated of all relevant regulatory developments/guidance with regard to the Qualification Requirements with the assistance of its legal adviser in the PRC.

The Company would, as applicable and when necessary, provide periodic updates in its annual reports and interim reports after the completion of the transaction to inform the investing public of its efforts and actions taken to comply with the Qualification Requirement. The Company will also make periodic inquiries to relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

Reasons for adopting the VIE Structure

First, the primary purpose for the Group to adopt the VIE Structure is to enable the Group to provide the profitable internet information service* (經營性互聯網信息服務) indirectly through the OPCO, thereby deepening the Group's reach to the business segment of financial services as well as widening the Group's customer base to cover the P2P Financing customers in the PRC. However, due to the foreign ownership restrictions under the PRC Laws as outlined above, the Group was not able to engage in the profitable internet information service directly without first adopting the VIE Structure.

In order to comply with the PRC Laws, the VIE Agreements were entered into among the WFOE, the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

The Company has discussed with its auditor and confirms that the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group under the prevailing accounting principles upon entering into the VIE Agreements.

On the basis of the aforesaid confirmation and pursuant to Rule 1.01 of the Listing Rules, the Company further confirms that the OPCO will be a wholly-owned subsidiary of the Company.

Secondly, in view of the need to meet the fast-growing demand for the P2P Financial business and to obtain the ICP Licence for the operation of the P2P Financing Information Business, the Company is of the view that it would be the most viable and commercial sensible approach to have effective control over the OPCO through the VIE Structure as well due to various reasons as explained below:

- (a) It would be most feasible for the OPCO to operate the P2P Financing Information Business taking into account that (i) the OPCO has obtained the requisite ICP Licence for the operation of the P2P Financing Information Business; and (ii) the OPCO currently owns the domain name for the operation of the P2P Financing Information Business.
- (b) Due to the lack of clear guidance or interpretation on the aforesaid Qualification Requirement, it would be difficult and uncertain for the Group to obtain the ICP Licence through holding equity interests (whether directly or indirectly) in a foreign-invested enterprise in the PRC, and hence there will be a prolonged process of application with unknown results, which would cause extra costs for the Group. Therefore, there exists great difficulty and uncertainty for a foreign-invested enterprise to obtain the ICP Licence from

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the relevant authority in the PRC. Adopting the VIE Structure can reduce the time and costs for obtaining the ICP Licence and allow the Group to accumulate the relevant experience to meet the Qualification Requirement, and therefore is in the interests of the Company and the Shareholders as a whole. Taking into account of the above, in order not to interrupt the daily operations of the Platform, the Group has to adopt the VIE Structure to control the entire equity interests of the OPCO.

COMPLIANCE OF VIE AGREEMENTS WITH PRC LAWS, RULES AND REGULATIONS

As advised by the PRC Legal Adviser, the VIE Agreements do not violate any PRC Laws, rules and regulations applicable to the business of the OPCO and would not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC Contract Law* (中華人民共和國合同法). The VIE Agreements entered into by the WFOE, the OPCO and the PRC Equity Owners are legally binding on each party in accordance with their terms and provisions under the PRC Laws except certain terms of the VIE Agreements as set out in the paragraph headed “Risk factors in relation to the VIE Agreements – Certain terms of the VIE Agreements may not be enforceable under PRC Laws” below.

DISPUTES RESOLUTIONS, SUCCESSION AND LIQUIDATION UNDER THE VIE AGREEMENTS

As confirmed by the PRC Legal Adviser, the scope of the VIE Agreements encompass dealing with the OPCO Group’s assets, apart from the WFOE’s right to manage the OPCO Group’s business and to receive the OPCO’s revenue.

Dispute Resolutions

The VIE Agreements are governed by and will be constructed in accordance with the PRC Laws. Any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within 30 days, any party may submit the said dispute to China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) in accordance with its arbitration rules. The arbitrators may award remedies over the equity interest or assets of the OPCO, injunctive relief (e.g. mandatory transfer of assets) and/or winding up of the OPCO. The results of the arbitration shall be final and binding. In addition, the VIE Agreements contain provisions to the effect that parties may seek interim remedies from any courts of competent jurisdiction. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, Bermuda, the PRC and locations where the principal assets of the Company or the OPCO are located.

Succession

The provisions set out in the VIE Agreements are also binding on the successors of the PRC Equity Owners, as if the successor were a signing party to the VIE Agreements. Although the VIE Agreements do not specify the identity of successors to such PRC Equity Owners, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements. In case of a breach of the VIE Agreements, the WFOE may exercise its right against the successors of Mr. Zhi, the spouse of the individual PRC Equity Owner and the ultimate beneficial owner of the corporate PRC Equity owner, under the terms of the Spousal Consent Letter and

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the Undertaking. Pursuant to the terms of the Spousal Consent Letter and the Undertaking, any successors of Mr. Zhi and Ms. Yu shall assume any and all rights and obligations of the signing party under the VIE Agreements, as if the successor was a signing party to such VIE Agreements.

In addition, the spouse of the individual PRC Equity Owner and the ultimate beneficial owner of the corporate PRC Equity Owner have made certain consents, confirmations and the Undertaking which stipulates certain matters to succession of rights and obligations under the VIE Agreements. For, details, please refer to the paragraph headed “VIE Agreements – (6) The Spousal Consent Letter” in this circular. The PRC Legal Adviser is of the view that (i) the VIE Agreements provide the Group with protection, even in the event of death or divorce of Mr. Zhi or Ms. Yu; and (ii) the death or divorce of the Mr. Zhi or Ms. Yu shall not affect the validity of the VIE Agreements and the successors of Mr. Zhi or Ms. Yu shall be bound by the VIE Agreements.

Liquidation

Pursuant to the Exclusive Purchase Right Agreement, when the WFOE exercises its right to dissolve and liquidate the OPCO, if the PRC Equity Owners receive any residual assets and proceeds upon dissolution or liquidation, they shall return such residual assets and proceeds to the WFOE at nil consideration.

Conflict of interests

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the PRC Equity Owners and the Group. Each of the PRC Equity Owners has made certain consents, confirmations and the undertakings, details of which are set out in the paragraph headed “VIE Agreements – (5) The Authorisation Agreement” in this circular.

In addition, the Authorisation Agreement provides that (i) the PRC Equity Owners will not act in collusion with the persons authorised by the WFOE, against the interest of the WFOE; and (ii) the authorisations will only be granted to the Directors or officers of the Company who are unrelated to the PRC Equity Owners and Mr. Zhi to avoid any conflict of interests.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

The VIE Agreements contained certain provisions in order to exercise effective control over and to safeguard the assets of the OPCO.

In addition to the internal control measures as provided in the VIE Agreements, it is the intention of the Company, through the WFOE to adopt additional internal control measures against the OPCO as appropriate, having regard to the internal control measures to be adopted by the Group from time to time, which may include but not limited to:

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Management controls

- (a) the Group will appoint an executive Director or senior management (the “**Representative**”) to the board of the OPCO mainly responsible for exercising all management controls of the OPCO. The Representative is required to conduct monthly reviews on the operations of the OPCO and shall submit the monthly reviews to the Board. The Representative is also required to check the authenticity of the monthly management accounts of the OPCO;
- (b) the Representative shall station at the OPCO and shall be actively involved in various aspects of the daily managerial and operational activities of the OPCO;
- (c) the Representative shall report any major events of the OPCO to the chief financial officer of the Company (the “**CFO**”), who must in turn report to the Board through the secretary of the Company (the “**Company Secretary**”);
- (d) the CFO shall conduct regular site visits to the OPCO and conduct personnel interviews quarterly and submit reports to the Board; and
- (e) all seals, chops, incorporation documents and all other legal documents, to the extent permitted by the PRC law, of the OPCO must be kept at the office of the WFOE.

Financial controls

- (a) the CFO shall collect monthly management accounts, bank statements and cash balances and major operational data of the OPCO within 15 days after each month end for review. The financial team of the Company will seek explanations from the senior management of the OPCO on any material fluctuations of the aforesaid collected items. Upon discovery of any suspicious matters, the CFO must report to the Board through the Company Secretary;
- (b) if the payment of the services fees by the OPCO to WFOE is delayed, the CFO must meet with the PRC Equity Owners of the OPCO to investigate, and should report any suspicious matters to the Board through the Company Secretary. In extreme cases, the PRC Equity Owners of the OPCO will be removed and replaced.
- (c) the OPCO must submit copies of latest bank statements for every bank accounts of the OPCO within 15 days after the end of each month; and
- (d) the OPCO must assist and facilitate the Company to conduct all on-site internal audits if required by the Company.

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Legal review

- (a) the Representative will consult the Company's PRC legal adviser from time to time to check if there are any legal developments in the PRC affecting the arrangement contemplated under the VIE Agreements, and should immediately report to the Board so as to allow the Board to determine if any modification or amendment are required to be made;
- (b) as part of the internal control measures, major issues arising from implementation and performance of the VIE Agreements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. The Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist the Group to deal with specific issues arising from the VIE Agreements;
- (c) matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by the Board on a regular basis which will be no less frequent than on a quarterly basis;
- (d) the relevant business units and operation divisions of the Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the VIE Agreements and other related matters; and
- (e) the Company shall comply with the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the VIE Agreements.

THE BOARD'S VIEW ON THE VIE AGREEMENTS

Based on the above and the advice of the PRC Legal Adviser, the Board is of the view that the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and to minimise the potential conflicts with and are enforceable under the relevant PRC Laws. The VIE Agreements enable the WFOE to gain control over the OPCO and to be entitled to the economic interests and benefits of the OPCO. Pursuant to the relevant provisions of the VIE Agreements, the WFOE has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO. The WFOE will unwind the VIE Agreements as soon as the relevant PRC Laws allow the business of the OPCO to be operated without the contractual arrangement under the VIE Agreements. The Directors further believe that save as disclosed, the VIE Agreements are enforceable under the relevant PRC Laws, and that the VIE Agreements will provide a mechanism that enables the WFOE to exercise effective control over the OPCO. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.

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APPLICATION FOR AND CONDITIONS OF WAIVER

The Company has applied for, and the Stock Exchange has granted, a waiver from (i) setting a fixed term for each of the VIE Agreements pursuant to Rule 14A.52 of the Listing Rules; and (ii) setting maximum aggregate annual caps pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE under the Exclusive Business Co-operation Agreement subject to the following conditions:

- (a) *No change independent non-executive Directors' approval:* No changes to the terms of any of the VIE Agreements will be made without the approval of the independent non-executive Directors.
- (b) *No change without Independent Shareholders' approval:* Save as described in paragraph (d) below, no changes to the terms of any of the VIE Agreements will be made without the approval of the Independent Shareholders. Once Independent Shareholders' approval of any change has been obtained, no further announcement, circular or approval of the Independent Shareholders, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the VIE Agreements in the annual reports of the Company (as set out in paragraph (e) below) will however continue to be applicable.
- (c) *Economic benefit flexibility:* the VIE Agreements shall continue to enable the Group to receive the economic benefits derived by the OPCO Group through: (i) the WFOE's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in the OPCO; (ii) the business structure under which the revenue generated by the OPCO is substantially retained by the WFOE; and (iii) the WFOE's right to control the management and operation of, as well as, in substance, all of the voting rights of the OPCO;
- (d) *Renewal and reproduction:* On the basis that the VIE Agreements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has equity interest, on the one hand, and the OPCO Group, on the other hand, such framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business in the PRC as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Independent Shareholders, on substantially the same terms and conditions as the existing VIE Agreements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business that the Company may establish upon renewal and/or reproduction of the VIE Agreements will be treated as the connected persons of the Company and transactions between these connected persons and the Company other than those under similar VIE Agreements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC Laws and approvals from the relevant PRC authorities.

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- (e) *Ongoing reporting and approvals:* the Group will disclose details relating to the VIE Agreements on an ongoing basis as follows:
- (i) The VIE Agreements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
 - (ii) The independent non-executive Directors will review the VIE Agreements annually and confirm in the Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the VIE Agreements, have been operated so that a service fee, to be determined at the sole discretion of the WFOE having regard to a series of consideration, such as the operating condition of the OPCO, is payable on a monthly basis by the OPCO to the Group; (ii) no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.
 - (iii) The Company's auditors will carry out procedures annually on the transactions carried out pursuant to the VIE Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before the Company bulk prints its annual report, confirming that the transactions carried out pursuant to the VIE Agreements have received the approval of the Directors, have been entered into in accordance with the relevant VIE Agreements and that no dividends or other distributions have been made by the OPCO Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.
 - (iv) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the OPCO and its subsidiaries will be treated as the Company's subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the OPCO and its subsidiaries and their respective associates will be treated as the Company's "connected persons". As such, the transactions between these connected persons and the Group (including for this purpose, the OPCO Group), other than those under the VIE Agreements, shall comply with Chapter 14A of the Listing Rules.
 - (v) Each of the OPCO and its subsidiaries also undertakes that, during the term of the relevant VIE Agreements, it will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review on the continuing connected transactions.

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RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

There is no assurance that the VIE Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Agreements do not comply with applicable regulations

Despite there is currently no indication that the VIE Agreements will be interfered or objected by any PRC regulatory authorities, the PRC Legal Adviser has advised that there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Agreements comply with the current PRC Laws or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the VIE Agreements.

Background of the Draft Foreign Investment Law

On 19 January 2015, the MOFCOM published the draft PRC Foreign Investment Law* (中華人民共和國外國投資法(草案徵求意見稿)) and the Explanation on the draft PRC Foreign Investment Law* (關於《中華人民共和國外國投資法(草案徵求意見稿)》的說明) (collectively, the “**Draft Law**”), which contain changes to the PRC foreign investment legal regime and the treatment of the VIE arrangement. The Draft Law clearly defines the VIE arrangement as a form of foreign investment. When the Draft Law is adopted, the PRC Foreign Investment Law* (中華人民共和國外國投資法) shall apply to investments using the VIE arrangements and may have a material impact on the PRC foreign investment legal regime.

There is no concrete guidance on how the existing and new VIE arrangements should be treated in the Draft Law. For investments using the VIE arrangements which exist before the Draft Law is adopted and becomes law, if the underlying businesses are still being categorised as prohibited or restricted foreign investment businesses after the Draft Law is adopted and becomes law, there are three suggested available alternatives (the “**Suggested Alternatives**”) in dealing with such VIE arrangements pursuant to the Draft Law:

- (a) the foreign investment enterprise under the VIE arrangement shall declare to the foreign investment authority under the State Council of the PRC that it is effectively controlled by PRC investors. After such declaration, the VIE arrangement can be retained and the relevant parties can continue the operation;
- (b) the foreign investment enterprise under the VIE arrangement shall file an application with the foreign investment authority under the State Council of the PRC for being recognised as a party under the effective control of PRC investors. If the foreign investment authority recognises it as being effectively controlled by PRC investors, the VIE arrangement can be retained and the relevant parties can continue the operation; or
- (c) the foreign investment enterprise under the VIE arrangement shall apply for entry permit from the foreign investment authority under the State Council of the PRC, and the foreign investment authority and relevant authorities will consider factors including the actual controller of the foreign investment enterprise and make a decision on how the relevant VIE arrangement should be handled.

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For the purpose of the Draft Law, “control” refers to the circumstances that any of the following conditions is met with respect to an enterprise: (i) holding, directly or indirectly, not less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise; (ii) holding, directly or indirectly, less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise, but falling under any of the following circumstances: (a) having the right to directly or indirectly appoint not less than half of the members of the board of directors or other similar decision-making body of the enterprise; (b) having the ability to ensure that its nominees occupy not less than half of the seats on the board of directors or other similar decision-making body of the enterprise; or (c) holding voting rights sufficient to impose significant impacts on any resolution of the meetings of shareholders, at the general meeting of shareholders, or of the board of directors or other decision-making body of the enterprise; or (iii) imposing decisive impacts on the operation, finance, personnel or technology of the enterprise by contract, trust, or other means. For the purpose of the Draft Law, “actual controllers” refer to natural persons or enterprises that directly or indirectly control any foreign investor or foreign-invested enterprise.

As defined in the Draft Law, “PRC investors” refer to the following subjects: (i) natural persons with PRC nationality; (ii) the PRC government and the departments or agencies there under; or (iii) domestic enterprises under the control of the subjects as mentioned in the preceding two categories. Meanwhile, “foreign investors” refer to the following subjects making investments within the territory of the PRC: (i) natural persons without the PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than the PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; or (iv) international organisations. Domestic enterprises under the control of foreign investors as mentioned in the preceding sentence are deemed as foreign investors.

The Potential Impact of the Draft Law on the Company

Assuming the Draft Law is adopted and becomes law and one of the Suggested Alternatives is adopted by the PRC government, in the event that the business of value-added communications still falls within the restricted or prohibited lists of the final foreign investment law (the “**FIL**”), the Group will have to:

- (a) report to the competent authorities if the reporting regime is finally adopted. The existing VIE structure will be permitted to continue following reporting to the MOFCOM that the VIE structure is ultimately controlled by a PRC investor. However, the Draft Law has not mentioned how to deal with the existing VIE structures ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the reporting regime;
- (b) obtain recognition from the competent authorities if the recognition regime is finally adopted. The existing VIE structure will be permitted to continue following recognition, on the application of the investor, by the MOFCOM of the VIE structure being ultimately controlled by a PRC investor. However, the Draft Law has not mentioned how to deal with the existing VIE structure ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the recognition regime; or

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- (c) obtain entry permit from the competent authorities if the entry permit regime is finally adopted. The existing VIE structure will be permitted to continue following the entry permit is granted by the MOFCOM after taking into account a number of considerations including, without limitation, the identity (whether PRC investor or foreign investor) of the ultimate control person.

There is no guarantee that the Group will be able to obtain such recognition or entry permit. If the Group is unable to obtain such recognition or entry permit, the Group may be required to terminate the VIE Agreements and dispose of the business carried out by the OPCO Group. As a result, the Group will lose control over the OPCO, which could negatively affect the Group's ability to conduct its business. In the event that the Company no longer has a sustainable business after such disposal, the Stock Exchange may delist the Company.

According to the PRC Legal Adviser, the Draft Law has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law, there is no assurance that the VIE Agreements will comply with the Draft Law when it is adopted and becomes law. If the PRC government finds that the VIE Agreements do not comply with PRC laws and regulations, or if these laws and regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish its interests received through the VIE Agreements.

Measures adopted by the Company to mitigate against any potential risk arising from the FIL

The Draft Law was circulated in January 2015 for comments and there has been no indication as to when it will be promulgated and come into effect and it does not contain a concrete guidance to deal with the existing VIE structures. Also, the Draft Law is currently in draft form only and remains subject to changes. As such, as advised by the PRC Legal Adviser, the Board will closely monitor the development of the Draft Law and if there is any development, they will discuss with the Company's PRC legal adviser in order to assess any possible impact arising from the change of the Draft Law or the FIL on the VIE Agreements and the business operation of the Group. In case there would be material and adverse effect on the Group or the business of the OPCO Group arising from the Draft Law or the FIL, the Company will timely announce (i) any updates or material changes to the Draft Law as and when they occur; (ii) in the event that the FIL has been promulgated, a clear description and analysis of the law, specific measures taken by the Company to be in compliance with the FIL with the support of a PRC legal opinion; and (iii) any material impact of the FIL on the Company's operations and financial position. However, since the Draft Law has not been finalized and requirements under the FIL may be difference from those set out in the Draft Law, the above-mentioned measures may not be effective.

Current Status of promulgation of the Draft Law

According to the PRC Legal Adviser, the Draft Law was circulated for comment and has not been legislated by the relevant authority. As the Draft Law is currently in draft form only, it is uncertain whether or when the Draft Law will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. MOFCOM and the State Council of the PRC may amend the Draft Law in light of any feedbacks or comments at the drafting stage. It may be further amended after being tabled if comments are raised by the Standing Committee of the National People's Congress or the National People's Congress. Furthermore, MOFCOM has not issued any definite rule or regulation to govern existing contractual arrangements.

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The VIE Agreements may not be as effective as direct ownership in providing control over the OPCO

The Group relies on the contractual arrangement under the VIE Agreements to operate the business of the OPCO. Such contractual arrangement may not be as effective in providing the WFOE with control over the OPCO as direct ownership. If the WFOE has direct ownership of the OPCO, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of the OPCO, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the VIE Agreements, the Group relies on the performance by the PRC Equity Owners of their obligations under the VIE Agreements to exercise control over the OPCO. Therefore, the VIE Agreements with the PRC Equity Owners may not be as effective in ensuring the WFOE's control over the OPCO as direct ownership would be.

The PRC Equity Owners may potentially have a conflict of interests with the Group

The Group's control over the OPCO is based on the contractual arrangement under the VIE Agreements. Therefore, conflict of interests of the PRC Equity Owners will adversely affect the interests of the Company. Pursuant to the Authorisation Agreement, the PRC Equity Owners will irrevocably appoint any PRC nationals as designated by the WFOE as their representative to exercise the voting rights of the shareholders of the OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Company and the PRC Equity Owners. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Company will consider removing and replacing the PRC Equity Owners.

The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

The Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's length basis, they may adjust income and expenses of the WFOE and/or the OPCO for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or the OPCO.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of the OPCO or those of the WFOE increase significantly or if they are required to pay interest on late payments and other penalties.

Certain terms of the VIE Agreements may not be enforceable under PRC Laws

The VIE Agreements provide that the arbitration tribunal of the PRC may award remedies over the equity interests or assets of the OPCO or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OPCO. The VIE Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Bermuda, the PRC and the location where the principal assets of the Company or the OPCO are located.

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However, the PRC Legal Adviser is of the view that pursuant to the PRC Laws, the arbitration tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OPCO. In addition, even though the VIE Agreements provide that overseas courts (e.g. courts in Hong Kong and Bermuda) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC Laws. As a result, in the event that the OPCO or any of the PRC Equity Owners breaches the terms of the VIE Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the OPCO could be materially and adversely affected.

Furthermore, notwithstanding the relevant contractual provisions contained in the VIE Agreements, courts of competent jurisdiction may grant interim remedies only to the extent as permitted under the PRC Laws. Therefore, such interim remedies may not be available under the PRC Laws.

Economic Risks

As the primary beneficiary of OPCO, the Group will bear the economic risks which may arise from the business of OPCO and may lose all of its investment in OPCO. Although the Group is not obliged to provide financial support to OPCO, in the event that the OPCO requires financial assistance, the Group may, at its sole discretion, provide financial support to OPCO in order to maintain its sound operation. In such case, the Group's business, financial condition and results of operations may be adversely affected.

A substantial amount of costs and time may be involved in transferring the ownership of the OPCO to the Group under the Exclusive Purchase Right Agreement

In case the WFOE exercises its option to acquire all or part of the equity interests in the OPCO under the Exclusive Purchase Right Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC Laws and will be subject to necessary approvals and relevant procedures under the applicable PRC Laws. In addition, the abovementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the equity interests in the OPCO) or other limitations as imposed by the applicable PRC Laws. Further, a substantial amount of taxes, other necessary costs (if any), expenses and time may be involved in transferring the ownership of the OPCO, which may have a material adverse impact on the Group's business, prospects and results of operation.

The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of VIE Agreements, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the VIE Agreements.

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There is a lack of clear guidance or interpretation on the Qualification Requirement which may cast uncertainty to the Group when the foreign ownership restriction in value-added telecommunications is relaxed

In respect of the Qualification Requirement, there is no clear formal guideline and provision on what constitutes “a good track record” and “operational experience”. Despite the lack of clear guidance or interpretation on the Qualification Requirement, the Company intends to acquire the entire equity interests in the OPCO when the PRC Laws allow foreign investors to invest in value-added telecommunications enterprises in the PRC. The Group plans to take steps to build up its track record of overseas value-added telecommunications business operations in an attempt to comply with the Qualification Requirement, so as to be qualified to acquire the entire equity interests in the OPCO when the restrictions on the percentage of foreign ownership in value-added telecommunications services and on foreign ownership in value-added telecommunication enterprises are lifted. The Company, however, cannot assure that such measures are ultimately sufficient to comply with the Qualification Requirement. If the restriction on foreign ownership in companies providing value-added telecommunications services under the current PRC Laws is lifted, the Group may still not be in a position to comply with the Qualification Requirement and not qualified to acquire the entire equity interests in the OPCO.

COMMERCIAL BENEFITS OF THE TRANSACTIONS

As outlined in the section headed “Background and Reasons for Use of the VIE Structure” in this circular, the Group needs to adopt the VIE Structure (namely, entering into the VIE Agreements) so that it can provide the “profitable internet information service” to the third-parties through online platforms (such as websites and mobile-based apps).

Apart from the regulatory benefits, adopting the VIE Structure will bring the following commercial benefits to the Group:

1. It allows the Group to have effective control over the finance and operation of the OPCO and to enjoy the entire economic interests and benefits granted by the OPCO. In particular, Mr. Zhi, the Director and the chairman of the Board, is also the legal representative and chief executive officer of the OPCO and has 4 years of experience in guiding the operation and the development of the OPCO. In addition, Mr. Yuan Xiaolei, the chief financial officer of the Company, is also the chief financial officer of the OPCO and has 4 years of experience in monitoring the financial performance of the OPCO. As such, the Company believes that its director and senior managements of the Company possess rich experience and requisite expertise to effectively operate the OPCO Group’s business. By introducing the P2P Financing Information Business, the OPCO will create a new business driver to the Company and generate a long-term return to the Shareholders. Set forth below is the business development plan of the OPCO by the end of 2019:
 - The OPCO intends to tap into the individual credit loan market in 2019 by offering various types of consumption-based P2P loans such as cars, tourism, home decoration and house rental via the platform of Huayingdai;

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- The OPCO also intends to improve the risk management system and measures including providing more training to employees, and hiring more risk management staff; and
 - The OPCO intends to devote more resources in marketing by boosting the amount of advertising so as to attract more potential lenders and customers as well as to retain its existing customers.
2. It enables the Group to obtain control of the OPCO which holds the ICP Licence necessary for conducting the profitable internet information services business, which will facilitate further deployment of the Group in the Fintech industry in the PRC. Specifically, with the ICP Licence for provision of the profitable internet information service, it would enable the Group to widen its customer base to cover the P2P Financing customers and to further develop and implement new future businesses in the financial services business in the future, which will enhance the competitiveness and adaptability of the Group in the market.
 3. As a result of the information service shared between the Group and the independent third-parties lenders and borrowers, and with analysing the big data collected, the Group can better understand the needs of market players and consumers in the P2P Financing industry, such that the Group will be able to plan ahead its positioning in marketing and promotion.

In light of the above, the Group believes the entry of the VIE Agreements will bring more profits to the Group and create more value for the Shareholders.

The Board considers that the terms of the VIE Agreements and the transactions contemplated thereunder were determined after arm's length negotiation between the parties thereto and the Board is of the view that (i) the VIE Agreements are fundamental to the OPCO's legal structure and business operations; and (ii) the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Apart from the obligations under the VIE Agreements, the Company has not given any further commitment to the OPCO.

Save for the possible exercise of the exclusive purchase rights granted by the Exclusive Purchase Rights Agreement, the Company has no intention or plan, and has not entered into any agreement, arrangement, undertaking or understanding (whether formal or informal, express or implied) to acquire any new business or dispose or downsize its existing businesses. However, as disclosed in the announcement of the Company dated 24 January 2018, the Company will continue from time to time review the existing business and explores other business opportunities with a view to diversify the Group's business.

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LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements exceed 5% and all the applicable percentage ratios are less than 25%, the entering into of the VIE Agreements constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Mr. Zhi, who holds 60% equity interest in Zhis Holding Co, which in turn holds 90% equity interest in the OPCO, is an executive Director and a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, Mr. Zhi is a connected person of the Company.

As the OPCO is legally owned as to 90% by Zhis Holding Co, the OPCO is a connected person of the Company by virtue of being an associate of Mr. Zhi. The VIE Agreements constitute connected transactions and continuing connected transactions respectively pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements exceeds 5%, the transactions contemplated under the VIE Agreements shall be subject to the announcement, shareholders' approval, reporting and annual review requirements under Chapter 14A of the Listing Rules.

The Company has applied for, and the Stock Exchange has granted, a waiver from (i) setting a fixed term for each of the VIE Agreements pursuant to Rule 14A.52 of the Listing Rules; and (ii) setting maximum aggregate annual caps pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE under the Exclusive Business Co-operation Agreement, subject to the conditions set out more particularly in this circular.

In addition, it is foreseeable that agreements, other than the VIE Agreements, will be entered into between the OPCO Group and the Group. Given that the financial results of the OPCO Group will be consolidated into the Group's financial statements and will be treated as subsidiaries of the Company by virtue of the VIE Agreements and therefore not treated as connected persons of the Company, thus the transactions between the OPCO Group and the Group will not be treated as connected transactions.

Mr. Zhi has abstained from voting on the Board resolutions for considering and approving the Waiver, the VIE Agreements and the transactions contemplated thereunder. Save as disclosed above, there are no other Directors who have any material interest in the transactions contemplated under the VIE Agreements, and no other Directors are required to abstain from voting on the Board resolutions for considering and approving the Waiver, the VIE Agreements and the transactions contemplated.

LETTER FROM THE BOARD

GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the VIE Agreements. Messis Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the VIE Agreements (including the duration of the VIE Agreements) and the transactions contemplated thereunder and whether they are in the interests of the Company and the Shareholders as a whole.

SGM

The SGM will be held at 26th Floor, No.238 Des Voeux Road Central, Hong Kong on Monday, 10 December 2018 at 3:00 p.m. for the Shareholders to consider and, if thought fit, pass the requisite resolution(s) to approve, among other things, the VIE Agreements and the transactions contemplated thereunder. The notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular.

Pursuant to the Listing Rules, any Shareholder with a material interest in the entry of the VIE Agreements and its associates are required to abstain from voting in respect of the VIE Agreements. As at the Latest Practicable Date, Mr. Zhi and his respective associates held 322,409,404 Shares, representing approximately 49.15% of the issued capital of the Company. To the best knowledge of the Company, save for Mr. Zhi and his respective associates, no Shareholder is required to abstain from voting at the SGM for the ordinary resolution in respect of the VIE Agreements.

You will find the enclosed proxy form for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the SGM to the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

Members of the Company whose names appear on the register of members of the Company at 4:30 p.m. on Friday, 7 December 2018 shall be entitled to attend and vote at the SGM. In order to be entitled to attend and vote at the SGM, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 7 December 2018.

LETTER FROM THE BOARD

RESPONSIBILITY STATEMENTS

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.

RECOMMENDATION

The Directors (including all independent non-executive Directors) considered that the terms of the VIE Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Therefore, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in respect of the VIE Agreements. As mentioned above, the Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders.

Your attention is drawn to the letter from the Independent Board Committee and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which are set out on pages 54 to 55 and pages 56 to 80 of this circular, respectively. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that, although the VIE Agreements and the transactions contemplated are not entered into in the ordinary and usual course of business of the Group, the terms of the VIE Agreements and the transactions contemplated thereunder are (i) on normal commercial terms, and (ii) fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Therefore, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in respect of the VIE Agreements and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Hua Long Jin Kong Company Limited
Zhi Hua
Chairman



HUA LONG JIN KONG COMPANY LIMITED
華隆金控有限公司
(incorporated in Bermuda with limited liability)
(Stock Code: 1682)

20 November 2018

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTIONS AND
CONTINUING CONNECTED TRANSACTIONS RELATING TO
THE ENTRY OF THE VIE AGREEMENTS**

We refer to the circular of the Company dated 20 November 2018 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the VIE Agreements and the transactions contemplated thereunder and whether such terms are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Messis Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the VIE Agreements were entered into on normal commercial terms; and in the ordinary and usual course of business of the Company and the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Independent Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 56 to 80 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 6 to 53 of the Circular and the additional information set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the VIE Agreements and the transactions contemplated thereunder and the principal factors and reasons considered by, and the advice of Messis Capital Limited, we are of the opinion that, although the VIE Agreements and the transactions contemplated are not entered into in the ordinary and usual course of business of the Group, the VIE Agreements were entered into on normal commercial terms; and the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

Having taken into account the advice of Messis Capital Limited, we consider that (i) the OPCO is in line with the Group's strategy to deepen the reach of the Group in the financial services business segment; (ii) the increasing market demand on loans in the PRC; (iii) the VIE Agreements allows the Group to engage in the profitable internet information services indirectly through the OPCO, thereby extending the Group's reach to the new business segment of the financial services as well as widening the Group's customer base to cover the P2P Financing customers in the PRC; and (iv) the financial results of the OPCO will be consolidated into the Group's consolidated financial statement under the prevailing accounting principles upon entering into the VIE Agreements, we consider that the entering into the VIE Agreements is in the interests of the Company and the Shareholders as a whole and in line with the Group's business strategy to diversify its revenue stream.

We therefore recommend that you vote in favour of the resolution to be proposed at the SGM to approve the VIE Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee of
Hua Long Jin Kong Company Limited

Lin Hui
Independent
non-executive Director

Chau On Ta Yuen
Independent
non-executive Director

Lam Lee G
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Messis Capital Limited, the Independent Financial Adviser, for the purpose of inclusion in this circular, to the Independent Board Committee and the Independent Shareholders in relation to the entry of the VIE Agreements.



20 November 2018

*To: The Independent Board Committee and the Independent Shareholders of
Hua Long Jin Kong Company Limited*

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS RELATING TO THE ENTRY OF THE VIE AGREEMENTS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the entry of the VIE Agreements, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 20 November 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 4 October 2018 (after trading hours), the WFOE entered into the VIE Agreements with the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements exceed 5% and all the applicable percentage ratios are less than 25%, the entering into of the VIE Agreements constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Mr. Zhi, who holds 60% equity interest in Zhis Holding Co, which in turn holds 90% equity interest in the OPCO, is an executive Director and a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, Mr. Zhi is a connected person of the Company. As the OPCO is legally owned as to 90% by Zhis Holding Co, the OPCO is a connected person of the Company by virtue of being an associate of Mr. Zhi. The VIE Agreements constitute connected transactions and continuing connected transactions respectively pursuant to Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements exceeds 5%, the transactions contemplated under the VIE Agreements shall be subject to the announcement, shareholders' approval, reporting and annual review requirements under Chapter 14A of the Listing Rules.

Mr. Zhi has abstained from voting on the Board resolutions for considering and approving the Waiver, the VIE Agreements and the transactions contemplated thereunder. Save as disclosed above, there are no other Directors who have any material interest in the transactions contemplated under the VIE Agreements, and no other Directors are required to abstain from voting on the Board resolutions for considering and approving the Waiver, the VIE Agreements and the transactions contemplated.

The Independent Board Committee (comprising all of the independent non-executive Directors, namely Mr. Li Hui, Mr. Chau On Ta Yuen and Dr. Lam Lee G) has been established to advise the Independent Shareholders in relation to the terms of the VIE Agreement. We, Messis Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we do not have any relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company. During the last two years, we did not have any engagement with the Company or the Directors, chief executives and substantial shareholders of the Company or any of their associates. We are independent of the Company pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR ADVICE AND RECOMMENDATIONS

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

The 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 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 therein or the document misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In formulating our opinion and recommendation, we have been provided and reviewed, among other things, (i) the VIE Agreements; (ii) the PRC Legal Opinion to the VIE Agreements; (iii) the Company's annual report for the year ended 31 March 2018 (the "**2018 Annual Report**"); (iv) the Company's annual report for the year ended 31 March 2017 (the "**2017 Annual Report**"); (v) the audited financial statements for the two years ended 31 December 2016 and 2017 and the management account for the eight months ended 31 August 2018 of the OPCO Group; and (vi) the information contained in the Circular. We have further discussed with the management of the Group in relation to the VIE Agreements and the transactions contemplated thereunder.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the VIE Agreements.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have taken the following principal factors and reasons into consideration:

1. Background information of the Group

1.1 Background of the Group

The Group is principally engaged in the two business segments, which are (i) garment sourcing; and (ii) provision of financial services, including asset management, finance lease, pawn and money lending business.

1.2 Financial information of the Group

Set out below is a summary of the consolidated statements of profit or loss of the Group for each of the three financial years ended 31 March 2016, 2017 and 2018, and the consolidated statement of financial position of the Group as at 31 March 2016, 2017 and 2018, which are extracted from the 2018 Annual Report and the 2017 Annual Report.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 March		
	2018	2017	2016
	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)
Revenue	184,829	80,992	164,589
Garment sourcing management business	184,767	80,992	164,589
Financial services	62	–	–
Gross profit	21,009	5,024	12,900
Profit/(loss) of the year	7,995	(11,443)	(24,757)

The Group's revenue for the year ended 31 March 2018 amounted to approximately HK\$184.8 million, representing an increase of approximately 128.2% as compared to the total revenue for the year ended 31 March 2017. Such increase was mainly attributable to (i) the expansion of its suppliers' network to include more diversified garment products so as to broaden the product base and the client mix; and (ii) the commencement of new business segment of financial services which includes asset management, finance lease, pawn and money lending business. The profit for the year ended 31 March 2018 was approximately HK\$8.0 million, representing an increase in profit of approximately 169.9% as compared to a loss recorded for the year ended 31 March 2017. Such increase was mainly attributable to (i) the increase in other income which mainly due to certain directors waived their unclaimed fees for current period and prior years and MPF refund; (ii) the increase in foreign exchange gain in relation to the appreciation of RMB during the period; and (iii) the decrease in selling and distribution costs in relation to the passing on of such costs to customers.

The Group's revenue for the year ended 31 March 2017 amounted to approximately HK\$81.0 million, representing a decrease of approximately 50.8% as compared to the total revenue for the year ended 31 March 2016. According to the 2017 Annual Report, such decrease was mainly attributable to the sluggish retail demand in the USA, Canada and Europe that still has weighed on buyers' confidence and made retailers particularly cautious in placing orders. The loss for the year ended 31 March 2017 was approximately HK\$11.4 million, representing a decrease in loss of approximately 53.8% compared to the loss of approximately HK\$24.8 million for the year ended 31 March 2016. Such decrease was mainly attributable to the decrease in selling and distribution costs and administrative expenses resulted from the reduction in headcounts and sample making, that compensated the decrease in gross profit.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Background information of the WFOE and the OPCO Group

2.1 Information of the WFOE

The WFOE is a limited liability company established in the PRC on 13 December 2017 and an indirect wholly-owned subsidiary of the Company. It mainly engaged in the business of assets management.

2.2 Information of the OPCO Group

Background of the OPCO Group

The OPCO is a limited liability company established in the PRC on 3 November 2014. The Group does not directly own any equity interest in the OPCO, which is currently held by Zhis Holding Co and Ms. Yu as to 90% and 10%, respectively, whereas Zhis Holding Co is currently held by Mr. Zhi and Ms. Yu as to 60% and 40%, respectively.

Chun'an Huaying is a limited liability company established in the PRC on 24 December 2015. The Group does not directly own any equity interest in Chun'an Huaying, which is currently held by the OPCO and Feng Xiaoshuang (豐曉霜), an Independent Third Party, as to 51% and 49%, respectively. Chun'an Huaying is primarily engaged in the provision of financial information service.

Kaihua Huijin is a limited liability company established in the PRC on 17 December 2015. The Group does not directly own any equity interest in Kaihua Huijin, which is currently held by the OPCO and two Independent Third Parties, namely, Teng Hui (滕輝) and Jiang Mei (江梅), as to 51%, 39% and 10%, respectively. Kaihua Huijin is primarily engaged in the provision of financial information technology subcontracting services.

Feng Xiaoshuang, Teng Hui and Jiang Mei are three individuals in the PRC. Feng Xiaoshuang is a senior manager of a company which principally engages in advertising and media business. Teng Hui is the legal representative of a company which principally engages in providing financial and investment services. Jiang Mei does not hold any position in any other companies. Ms. Jiang Mei is a professional investor.

Feng Xiaoshuang, Teng Hui and Jiang Mei, and their respective associates have no relationship with the Company, its connected persons and their respective associates.

According to the articles of association of Chun'an Huaying and Kaihua Huijin (collectively the "**Subsidiaries**"), profits (if any) shall be shared among shareholders on a pro rata basis. As confirmed by PRC Legal Adviser, the Subsidiaries are only registered with the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理局) with insignificant capital contribution and have yet commenced any business, the Subsidiaries do not generate any profit that can be distributed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Further, the Company has no intention to commence business of the Subsidiaries due to: (a) the fact that the shareholders have only made insignificant capital contribution; (b) the Company had been trying but still unable to reach consensus on business development strategy with the other 49% shareholders of the Subsidiaries as of the date of this circular; and (c) the Stock Exchange does not allow VIE structure for business which are not restricted or prohibited business for foreign investors under PRC Laws. As confirmed by the PRC Legal Adviser, both of the Subsidiaries are not engaged in restricted or prohibited business for foreign investors. For the foregoing reasons, the Company (via OPCO) has intention to dispose of its entire interest in the Subsidiaries to an Independent Third Party. Accordingly, the Subsidiaries will not generate any profit that can be distributed to the WFOE through the VIE Agreements. The Company undertakes not to commence any business of the Subsidiaries prior to the disposal of or transfer its entire interest in the Subsidiaries.

The Company has no intention to acquire the remaining 49% interest in the Subsidiaries from the other shareholders of the Subsidiaries. As mentioned above, the Company (via the OPCO) has intention to dispose of its entire interest in the Subsidiaries to an Independent Third Party. For the reasons stated above, the Company decided to dispose of its entire interest in the Subsidiaries to an Independent Third Party via the OPCO.

Furthermore, as set out in the Letter from the Board, due to current policy reasons of the PRC government to strengthen regulation on internet finance industry and suspension of the processing of business registration application with respect of the change of shareholders of the Subsidiaries, the Company (via the OPCO) is unable to dispose of or transfer its interest in the Subsidiaries as of the date of this Circular. The Company will procure the OPCO to dispose of its entire interest in the Subsidiaries when PRC government policy allows the registration of change of shareholding structure of the Subsidiaries.

Business and operation of the OPCO Group

The OPCO is primarily engaged in the P2P Financing business and operated as an online lending information intermediary institution (the “**P2P Financing Information Business**”). As advised by the PRC Legal Adviser, the OPCO has obtained ICP Licence under applicable laws and regulations in the PRC to operate the P2P Financing Information Business. The ICP License currently obtained by the OPCO has a term of five years, which was issued on 12 July 2016 and will expire on 11 July 2021.

The OPCO operates an online platform in provision of information services including information gathering, information publication, credit assessment, information exchange and lender-borrower matching for both lenders and borrowers to facilitate P2P loans. The online lending platform named 華贏貸 (www.huayingdai.net) was launched on 15 April 2015, which only serves as an information platform for borrowers and lenders of P2P loans and does not directly involve in the lending activities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During the P2P lending process, the OPCO only acts as information intermediary for borrowers and lenders of online P2P lending and is not a party to the lending itself. No credit-related services are provided by the OPCO in the P2P lending, and the OPCO only charge services fees from borrowers for provision of information services, which are the major source of revenue of the OPCO. All risks in relation to the P2P lending are borne by lenders.

During the Track Record Period and up to the Latest Practicable Date, approximately 23,000 loan transactions have been handled by the OPCO, with the total loan amount amounted to approximately RMB6.9 billion.

Financial Information of the OPCO Group

Set out below is the financial information of the OPCO Group extracted from its audited financial statements for the two years ended 31 December 2016 and 2017 based on the Accounting Standards for Small Enterprises and its unaudited financial statements for the eight months ended 31 August 2017 and 2018 based on its management account:

Financial Performance

	For the eight months ended 31 August 2018 RMB'000 (Unaudited)	For the eight months ended 31 August 2017 RMB'000 (Unaudited)	For the year ended 31 December 2017 RMB'000 (Audited)	
			2016 RMB'000 (Audited)	
Revenue	10,414	16,212	21,352	10,449
Profit/(loss) of the year	(2,036)	2,708	(365)	(401)

Financial Position

	As at 31 August 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)	
		2016 RMB'000 (Audited)	
Total assets	13,751	31,161	31,387
Total liabilities	7,206	23,488	23,350
Net assets	6,545	7,672	8,037

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The OPCO Group's revenue increased from approximately RMB10.4 million for the year ended 31 December 2016 to approximately RMB21.4 million for the year ended 31 December 2017, representing a year-to-year increase of approximately 104.3%, which was mainly attributable to the increase in demand of households to take loans. The OPCO Group recorded a loss of approximately RMB401,000 and RMB365,000 for the year ended 31 December 2016 and 31 December 2017 respectively, representing a year-to-year decrease in loss of approximately 9.0%. The decrease in loss of the OPCO Group was mainly attributable to the increase in promotional expense which was offset by the rapid growth in revenue during the same period.

The OPCO Group's revenue decreased from RMB16.2 million for the eight months ended 31 August 2017 to RMB10.4 million for the eight months ended 31 August 2018, representing a period-to-period decrease of approximately 35.8%. Such decrease was mainly attributable to the instability of the P2P Financing industry in the PRC. The OPCO Group recorded a loss of approximately RMB2.0 million for the eight months ended 31 August 2018.

The total assets of the OPCO Group decreased slightly from approximately RMB31.4 million as at 31 December 2016 to approximately RMB31.2 million as at 31 December 2017. The total assets of the OPCO Group subsequently decreased to approximately RMB13.8 million as at 31 August 2018. The notable decrease was mainly attributable to the decrease in trade and other receivables which was in line with the decrease in revenue during the same period.

The OPCO Group's total liabilities increased slightly from approximately RMB23.3 million as at 31 December 2016 to approximately RMB23.5 million as at 31 December 2017. The OPCO Group's total liabilities subsequently decreased to RMB7.2 million as at 31 August 2018. The notable decrease was mainly attributable to the decrease in trade and other payables.

As the Subsidiaries have yet commenced any business, there is no profit nor revenue generated. The net asset of Kaihua Huijin as at 31 December 2016, 31 December 2017 and 31 August 2018 were approximately RMB1,618,000, RMB1,430,000 and RMB1,430,000 respectively. The net asset of Chun'an Huaying as at 31 December 2016, 31 December 2017 and 31 August 2018 were approximately RMB301,000, RMB301,000 and RMB301,000 respectively. The Company confirms that the net assets of Kaihua Huijin and Chun'an Huaying as at 31 August 2018 are RMB1,430,000 and RMB301,000 respectively which are bank deposits, and the reason for the decrease in net asset of Kaihua Huijin from RMB1,618,000 as at 31 December 2016 to RMB1,430,000 as at 31 December 2017 was due to the expenses incurred for engaging independent institution to conduct feasibility study on the feasibility of commencing value-added telecommunications business in Kaihua Huijin. According to the feasibility study report provided by the Company, it is not feasible and not cost effective to commence value-added telecommunications business in Kaihua County, Zhejiang Province in the PRC due to the limitation on market size and market demand, lack of professional talents and limitation of basic infrastructure in Kaihua County, Zhejiang

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Province in the PRC. Kaihua Huijin therefore did not commence such new business and it had no business operations as at the Latest Practicable Date. It is the intention of the Company (via OPCO) to dispose of its entire interest in the Subsidiaries (including Kaihua Huijin) to an independent third party.

3. Reasons for and benefits of the entering into the VIE Agreements

The Group is principally engaged in the garment sourcing management business. Since January 2018, the Group intends to commence new business segment of financial services which include asset management, finance lease, pawn and money lending business. On 30 January 2018, the Group has completed the acquisition of the entire equity interests of a company principally engaged in financial leasing business, purchasing lease assets from domestic and overseas markets and lease transaction consultation and guarantee in the PRC. According to the 2018 Annual Report, the Group is taking active steps for the application of pawnbroker licence in the PRC, and also has the intention to operate virtual banking. The Board considers that the demand for financial services is significant and the industry is vibrant in the PRC and Hong Kong hence the financial services business segment will provide a good opportunity for the Group to diversify its existing business portfolio, broaden its source of income, and enhance value to the Shareholders, which is expected to benefit the Company and the Shareholders as a whole.

According to the Letter from the Board, with the booming of the Fintech market, the Group sees the opportunities and intends to become one of the pioneers entering into the P2P Financing industry. The Directors consider that the P2P Financing Information Business would provide an opportunity for the Group to explore the possibility of the P2P Financing industry as well as to deepen the reach of the Group in the financial services business segment. The Directors are of the view that P2P Financing Information Business is a business with growth potential, and as Internet securities continue to improve in recent years, financial products transacted over the Internet will continue to gain popularity due to the convenience and privacy it provides. The Directors believe that the relevant experience in the money lending industry of the Group can promote synergies to the P2P Financing Information Business of the OPCO Group.

As set out in the Letter from the Board, since early 2018, the PRC regulators have started to clamp down the scams and risky behaviors in the consumer financing market and tighten the control over P2P financing business by implementing certain financial deleveraging measures, leading to a decrease in fund supply and increase in financing cost. According to the statistical data released by the National Committee of Experts on the Internet Financial Security Technology (國家互聯網金融安全技術專家委員會), the number of P2P platforms in the PRC decreased by 685 to 2,835 as at 30 June 2018 when compared to that as at 31 December 2017. We concur with the views of the Directors that the aforementioned regulatory trend does not signify an overall collapse in the P2P industry in the PRC, and P2P platforms with sound business practices and effective risk control system can actually benefit from the new regulatory environment which brings greater clarity and certainty to the market supervision and contributes to a more positive and benign development of the P2P financing industry. The elimination of risky and defective P2P platforms will improve the overall image of the consumer financing industry and enhance the confidence of both P2P borrowers and lenders.

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As set out in the Letter from the Board, given the increasing credit need of Chinese people, coupled with the ineffectiveness and low penetration of traditional financial institutions serving this need, the Directors believe there is still great demands and considerable potential in the P2P financing market in the PRC in the foreseeable future, and the P2P platforms which survive the regulatory crisis will be able to embrace more business opportunities. According to the statistical data released by a P2P platform information website, namely Wangdai Zhijia* (網貸之家), the transaction amount of P2P platform increased by approximately 36% from approximately RMB2,064 billion in 2016 to approximately RMB2,805 billion in 2017, which was followed by a decrease by approximately 21% from approximately RMB1,395 billion in the first half of 2017 to RMB1,100 billion in the first half of 2018. As noted from the aforementioned statistical data and advised by the management of the Company, although there existed a decrease in the transaction amount of the first half of 2018 as compared to that of 2017, which was mainly attributable to the recent series of tightened regulatory actions, we believe that there is room for the OPCO Group to achieve growth in its business in future given the recent market demand of P2P financing is substantially larger than the existing operation scale of the OPCO Group. We therefore concur the view of the Directors that there is still great demands and considerable potential in the P2P financing market in the PRC in the foreseeable future, and the P2P platforms which survive the regulatory crisis will be able to embrace more business opportunities. As such, the Directors believe that the recent series of tightened regulatory actions will not have significant impact on the OPCO Group and the Company and will not materially and adversely affect their operation and financial position in operating the P2P financing business. Accordingly, we concur with the views of the Directors that entering into the VIE Agreements by the Company is fair and reasonable and in the interest of the Company and its shareholders as a whole under the new regulatory environment, considering (i) the steady operation and healthy financial position of the OPCO since its establishment; (ii) the reducing market competitions under the recent tightening of regulation in the P2P financing market; and (iii) the recent demand for P2P financing remain strong in the PRC.

As advised by the Directors, having considered that (i) the OPCO has been established about four years since November 2014 and establishes a stable customer base, in which majority of its customers has over two years of relationship with the OPCO; (ii) the OPCO emphasises the importance of internal control in risk management of its business, taking into account (a) Mr. Zhi, an executive Director, has over 10 years of experience in P2P financing industry; (b) the risk management team of the OPCO comprises 12 members with an average of more than 6 years of relevant experience; and (c) the risk management team has absolute veto power during loan approval process; and (iii) as confirmed by the PRC Legal Adviser, the local financial regulatory authority did not request the OPCO to suspend its operation of online lending information services business or impose penalty on the OPCO, and the OPCO has obtained legal and valid ICP Licence from the ZJCA. We therefore concur with the views of the Directors that OPCO has the ability to sustain its business ongoing upon the effective of the VIE Agreements.

According to the Letter from the Board, the primary purpose for the Group to adopt the VIE Structure is to enable the Group to provide the profitable internet information service* (經營性互聯網信息服務) indirectly through the OPCO, thereby deepening the Group's reach to the business segment of financial services as well as widening the Group's customer base to cover the P2P Financing customers in the PRC. However, due to the foreign ownership restrictions under the PRC Laws as outlined above, the Group was not able to engage in the profitable internet information service directly without first adopting the VIE Structure. In order to comply with the PRC Laws, the VIE Agreements were entered

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into among the WFOE, the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership. Secondly, in view of the need to meet the fast-growing demand for the P2P Financial business and to obtain the ICP Licence for the operation of the P2P Financing Information Business, the Company is of the view that it would be the most viable and commercial sensible approach to have effective control over the OPCO through the VIE Structure.

Having considered the above, in particular the fact that (i) the OPCO is in line with the Group's strategy to deepen the reach of the Group in the financial services business segment; (ii) the aforementioned statistical data of transaction amount of P2P platform (i.e. approximately RMB2,805 billion in 2017 and RMB1,100 billion in the first half of 2018) demonstrated that the credit need of Chinese people in the PRC remains strong after the implementation of the Interim Measures and considerable potential in the P2P financing market in the PRC in the foreseeable future; (iii) the VIE Agreements allows the Group to engage in the P2P Financing Information Business indirectly through the OPCO, thereby extending the Group's reach to the new business segment of the financial services as well as widening the Group's customer base to cover the P2P Financing customers in the PRC; (iv) the increasingly regulated and fast-growing outlook of the P2P financing industry with the new regulatory environment considering the steady operation and healthy financial position of the OPCO since its establishment and (v) the financial results of the OPCO will be consolidated into the Group's consolidated financial statement under the prevailing accounting principles upon entering into the VIE Agreements, we concur with the view of the Directors that (i) the recent series of tightened regulatory actions and its potential impact will not have significant impact on the OPCO Group and the Company and will not materially and adversely affect their operation and financial position in operating the P2P Financing Information Business; and (ii) the entering into the VIE Agreements is in the interests of the Company and the Shareholders as a whole even though there exists a recent downturn in the P2P financing business.

4. The VIE Structure and the VIE Agreements

On 4 October 2018, the Group proposed to adopt the VIE Structure by entering into the VIE Agreements. The table below set out a brief summary for each of the VIE Agreements. The details are set out in the section headed "VIE Agreements" in the Letter from the Board.

(a) *The Exclusive Business Co-operation Agreement*

- Parties:
- (a) the WFOE;
 - (b) the OPCO;
 - (c) Chun'an Huaying; and
 - (d) Kaihua Huijin.

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Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement. The OPCO shall have no right to terminate this agreement.

Major matter: The OPCO shall engage the WFOE on an exclusive basis to provide the technical support, consulting services and other services as stated in the Letter from the Board of this circular.

Fee: For the services provided by the WFOE under the Exclusive Business Co-operation Agreement, the OPCO shall pay, on a monthly basis, to the WFOE a service fee that is determined at the sole discretion of the WFOE, having taking into account the following considerations:

- (i) the complexity and difficulty of the services provided by the WFOE;
- (ii) the manpower provided by the WFOE for the provision of service;
- (iii) the actual services and the commercial value of the services provided by the WFOE;
- (iv) the prevailing market rates for the same type of services; and
- (v) the operating condition of the OPCO (such that the OPCO would not be in financial difficulty after the payment of the service fee).

Under such arrangement, the service fee subject to the WFOE's adjustment, are equal to all of the net profit of the OPCO Group. The WFOE may adjust the service fee at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, retention of sufficient working capital, and accumulated losses of the OPCO Group from previous financial periods.

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(b) *The Exclusive Purchase Right Agreement*

- Parties:
- (a) the WFOE;
 - (b) the PRC Equity Owners; and
 - (c) the OPCO.

Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to this agreement. The OPCO and the PRC Equity Owners shall have no right to terminate this agreement.

Major matter: The PRC Equity Owners irrevocably grant the WFOE an exclusive right, at any time and from time to time, to purchase or nominate any individuals/entities to purchase all or part of their equity interests in the OPCO at the lowest price permissible under the PRC Laws.

The OPCO irrevocably grant the WFOE an exclusive right to purchase or nominate any individuals/entities to purchase all or part of its assets at the lowest price permissible under the PRC Laws.

When exercising the exclusive purchase right granted by the Exclusive Purchase Rights Agreement, the PRC Equity Owners agree to return the consideration for WFOE to exercise the exclusive purchase right by way of setting off the consideration against the outstanding amount of Loan owned by the respective shareholders of the OPCO. If the consideration of the transfer is determined to be lower than the amount of the outstanding balance of Loan, WFOE has agreed to waive the obligation of the shareholders of the OPCO to repay the residual outstanding amount of Loan. If the consideration of the transfer is determined to be higher than the amount of the outstanding balance of Loan, the discrepancy would be waived by the PRC Equity Owners. Accordingly, the WFOE is not required to pay extra consideration to PRC Equity Owners for the transfer under the Loan arrangement.

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The PRC Equity Owners shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of their equity interests in the OPCO, or granting others a right to purchase such equity interests (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE, and shall procure to the above effect at the shareholders' meetings and the meetings of the board of directors.

The OPCO shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of its assets, or granting others a right to purchase such assets (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE.

Where the purchase price is required by the relevant PRC Laws to be an amount other than a nil consideration, the PRC Equity Owners shall return the amount of purchase price they have received to the WFOE.

The WFOE have the sole discretion to decide when to exercise the purchase right, and whether to exercise the purchase right in part or in full. The key factor for WFOE to decide whether to exercise the purchase right is whether the current regulatory restrictions on foreign investment in the profitable internet information service business are removed in the future.

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(c) *The Loan Agreement*

- Parties:
- (a) the WFOE (as lender);
 - (b) the PRC Equity Owners (each as one of the borrowers); and
 - (c) the OPCO.
- Term:
- Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement. The Loan is for an infinite term until termination at the sole discretion of the WFOE. The loan will become due and payable upon the WFOE's demand under any of the circumstances as stated in the Letter from the Board of this circular.
- Major matter:
- The WFOE shall provide a loan in an aggregate amount of RMB6,540,000, which represents the approximate net asset value of the OPCO Group as at 31 August 2018, to the PRC Equity Owners pro rata to their shareholdings in the OPCO for the purpose of the operation of the OPCO and the Loan may be freely used by the PRC Equity Owners. The Loan provided by WFOE is one off and for the consideration of acquiring the economic interests and benefits generated by the OPCO.
- Repayment:
- When exercising the exclusive purchase right granted by the Exclusive Purchase Rights Agreement, the WFOE shall set off the consideration against the outstanding amount of Loan owned by the respective shareholders of the OPCO. If the consideration of the transfer is determined to be lower than the amount of the outstanding balance of Loan, WFOE has agreed to waive the obligation of the shareholders of the OPCO to repay the residual outstanding amount of Loan. If the consideration of the transfer is determined to be higher than the amount of the outstanding balance of Loan, the discrepancy would be waived by the PRC Equity Owner. Accordingly, the WFOE is not required to pay extra consideration to the PRC Equity Owner for the transfer under the Loan arrangement.

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(d) *The Equity Pledge Agreement*

- Parties:
- (a) the WFOE (as pledgee);
 - (b) the PRC Equity Owners (as pledgors); and
 - (c) the OPCO.
- Term: Effective upon execution and shall remain binding until (i) the PRC Equity Owners discharge all their obligations under the Prime Agreements in full; and (ii) the Secured Obligations are discharged in full.
- Major matter: The PRC Equity Owners agree to pledge all of their shares in the OPCO to the WFOE to secure the performance of all their obligations and the obligations of the OPCO under the VIE Agreements.
- Any dividend and/or other distribution generated by the pledged equity interests during the term of the pledge shall be returned to the WFOE.

(e) *The Authorisation Agreement*

- Parties:
- (a) the WFOE;
 - (b) the PRC Equity Owners; and
 - (c) the OPCO.
- Term: Effective upon execution and shall remain in effect until the WFOE terminates the Authorisation Agreement in writing, or all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO have been legally transferred to the WFOE or such individuals/entities as designated by the WFOE.
- Major matter: Each of the PRC Equity Owners unconditionally and irrevocably authorises the WFOE or its successor (who may further delegate such rights to other individuals) to exercise all of their rights as shareholders of the OPCO under PRC Laws.

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(f) *The Spousal Consent Letter*

Parties: The spouse of Ms. Yu, one of the PRC Equity Owners

Major matter: The spouse of the individual PRC Equity Owner irrevocably agrees that:

- (i) All the equity interests held by the PRC Equity Owners in the OPCO and all the benefits generated from these equity interests do not form part of their matrimonial property;
- (ii) He/she unconditionally and irrevocably waives any rights or entitlements to the equity interests of the OPCO;
- (iii) All the benefits generated from the equity interests in the OPCO belong to the PRC Equity Owners and can be dealt with in any way by the PRC Equity Owners without the consent of their spouses;
- (iv) He/she shall be bound by the relevant VIE Agreements in the event that they obtain any equity interest in the OPCO held by the PRC Equity Owners for any reason;
- (v) He/she shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance by the shareholder spouse's obligations under the VIE Agreements; and
- (vi) He/she, his/her successor, guardian, creditor, spouse or any other person that may be entitled to assume rights in the equity interests of the OPCO held by him/she upon his/her death, incapacity, divorce or any circumstances that may affect his/her ability to exercise his/her shareholder's rights in the OPCO, will not, in any manner and in any circumstances, carry out any act that may affect or hinder the fulfilment of the shareholder spouse's obligations under the VIE Agreements.

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Pursuant to the Loan Agreement, the WFOE shall provide a loan to the PRC Equity Owner in an aggregate amount of RMB6,540,000. According to the Exclusive Purchase Right Agreement, when exercising the exclusive purchase right granted by the Exclusive Purchase Rights Agreement, the PRC Equity Owners agree to return the consideration for WFOE to exercise the exclusive purchase right by way of setting off the consideration against the outstanding amount of Loan owned by the respective shareholders of the OPCO. If the consideration of the transfer is determined to be lower than the amount of the outstanding balance of Loan, WFOE has agreed to waive the obligation of the shareholders of the OPCO to repay the residual outstanding amount of Loan. If the consideration of the transfer is determined to be higher than the amount of the outstanding balance of Loan, the discrepancy would be waived by the PRC Equity Owners. Accordingly, the WFOE is not required to pay extra consideration to PRC Equity Owners for the transfer under the Loan arrangement. Under this arrangement, the loan amount of RMB6,540,000 is in substance the consideration for acquiring the effective control over the OPCO (the “**Consideration**”). Having consider that (i) the Consideration represents the approximate net asset value of the OPCO Group as at 31 August 2018, and the OPCO is asset light given that its assets mainly included other receivables and long-term prepaid expenses as at 31 August 2018; and (ii) the OPCO Group commenced operations since November 2014 and recorded a loss of approximately RMB401,000, RMB365,000 and RMB2,036,000 for the years ended 31 December 2016 and 2017 and eight months ended 31 August 2018, respectively, we are of the view that the net asset values of the OPCO Group is an appropriate measure to determine the Consideration. As the Consideration represents the approximate net asset value of the OPCO Group as at 31 August 2018, we are of the view that the Consideration is fair and reasonable and in the interest of the Company and its shareholders as a whole. Moreover, as that (i) WFOE is not required to pay extra consideration to PRC Equity Owners for the transfer under the Loan arrangement; and (ii) the reciprocal nature of the consideration discrepancy of the transfer waived by WFOE and the PRC Equity Owners, we concur with the view of the Directors that the aforementioned term of the Exclusive Purchase Right Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We have reviewed the VIE Agreements and the PRC legal opinion issued by the PRC Legal Adviser and understand that the VIE Agreements do not violate any PRC Laws, rules and regulations and applicable to the business of the OPCO and would not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC Contract Law* (中華人民共和國合同法). The PRC Legal Adviser also indicated that the legal documents concerning the OPCO signed by Zhis Holding Co and Ms. Yu, being all registered shareholders of the OPCO, are legal, valid and binding against the OPCO pursuant to the PRC Laws and the articles of association of the OPCO. Although Mr. Zhi was not signing party to the Exclusive Business Co-operation Agreement, Exclusive Purchase Right Agreement, the Loan Agreement, the Equity Pledge Agreement and the Authorisation Agreement, Mr. Zhi, as 60% controlling shareholder of Zhis Holding Co, had duly approved and authorized the execution of the VIE Agreements through the passing of all necessary shareholders’ resolutions and board resolutions in compliance with the PRC Laws. As confirmed by the PRC Legal Adviser, notwithstanding the indirect ownership of the OPCO by Mr. Zhi and Ms. Yu through Zhis Holding Co and the fact that Mr. Zhi was not a signing party to the Exclusive Business Co-operation Agreement, Exclusive Purchase Right Agreement, the

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Loan Agreement, the Equity Pledge Agreement and the Authorisation Agreement, the VIE Agreements are legal, valid and binding against the OPCO according to PRC Laws. Mr. Zhi and Ms. Yu, being all the equity owners of Zhis Holding Co undertook, jointly and severally, to the Company and the WFOE regarding the contractual arrangements that (a) they would procure to secure the performance of all obligations of Zhis Holding Co under the VIE Agreements and that they would not transfer or otherwise dispose of, directly or indirectly, their equity interests in Zhis Holding Co and/or the OPCO and/or create or allow any pledge thereon that may affect the rights and interests of the WFOE under the VIE Agreements without its prior consent; (b) they unconditionally and irrevocably waive any rights or entitlements to the equity interests of Zhis Holding Co and the OPCO; (c) all the benefits generated from their equity interests, directly or indirectly, in the OPCO belong to the WFOE and can be dealt with by the WFOE without their consent; (d) they shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance by Zhis Holding Co under the VIE Agreements; and (e) they, their successor, guardian, creditor, spouse or any other person that may be entitled to assume rights in their equity interests of Zhis Holding Co and the OPCO held by them upon their death, incapacity, divorce or any circumstances that may affect their ability to exercise their shareholders' rights in Zhis Holding Co and the OPCO, will not, in any manner and in any circumstances, carry out any act that may affect or hinder the fulfilment of Zhis Holding Co's obligations under the VIE Agreements and will be bound by the VIE Agreements. Mr. Zhi had irrevocably agreed to the contractual arrangements despite the fact that he was not a signing party to the Exclusive Business Co-operation Agreement, the Exclusive Purchase Right Agreement, the Loan Agreement, the Equity Pledge Agreement and the Authorisation Agreement. As further confirmed by the PRC Legal Adviser, the effect of the VIE Agreements covers the Subsidiaries and the VIE Structure covers the Subsidiaries. Having considered (i) the aforementioned understandings derived from the PRC legal opinion issued by the PRC Legal Adviser; (ii) legal documents concerning the OPCO signed by Zhis Holding Co and Ms. Yu and the VIE Agreements confirmed by the PRC Legal Adviser as legal, valid and binding against the OPCO according to PRC Laws; (iii) the undertakings given by Mr. Zhi and Ms. Yu to the Company and the WFOE regarding the contractual arrangements; and (iv) confirmations given by the PRC Legal Adviser that the effect of the VIE Agreements and the VIE Structure both cover the Subsidiaries, we concur with the view of the PRC Legal Adviser that the indirect ownership of the OPCO by Mr. Zhi and Ms. Yu through Zhis Holding Co will not affect the legality and validity of the VIE Agreements.

On 17 August 2016, CBRC, MIIT, Ministry of Public Security and the State Office of Internet Information jointly issued the Interim Measures on the Management of Business Operations of Online Lending Information Intermediaries 《網絡借貸信息中介機構業務活動管理暫行辦法》 (the “**Interim Measures**”). The Interim Measures provides for detailed implementation rules for the regulatory principles set out in the Guiding Opinion. The Interim Measures also define the online lending information service providers as financial information intermediaries. For details of the Interim Measures, please refer to “Regulations on Online Lending Information Services – Interim Measures” as set out in the Letter from the Board. As confirmed by the Company, the OPCO has commenced its business prior to the issue of the Interim Measures. We are given to understand from by the PRC Legal Adviser, the national financial regulatory authority of PRC (國家金融監管部門) has issued an internal notice to the local financial regulatory authorities in early April 2018, pursuant to which the issue of details for the registration for online lending information service providers have been temporarily suspended. Accordingly, the

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registration of online lending information service providers in the PRC has not been officially commenced. As advised by the PRC Legal Adviser, the OPCO is in the process of completing such registration with the local financial regulatory authority. As confirmed by the PRC Legal Adviser, OPCO submitted its application for filing registration to the relevant local financial regulatory authority, Hangzhou Chun'an County Financial Work Leading Group Office (杭州市淳安縣金融工作領導小組辦公室), in May 2018. The Company expects that OPCO will complete filing registration with the relevant local financial regulatory authority in around early 2019, subject to the decision of the competent authority in the PRC. As confirmed by the PRC Legal Adviser, the local financial regulatory authority did not request the OPCO to suspend its operation of online lending information services business or impose penalty on the OPCO, and the OPCO has obtained legal and valid ICP Licence from the ZJCA. As the details for registration of online lending information service providers are yet to be released, the PRC Legal Adviser is unable to foresee any unfavorable factors that may affect the normal business operation of the OPCO. The Company will keep monitoring the relevant regulatory changes, and in any event will keep the Shareholders informed and make appropriate disclosures in the event of any material adverse change happens. Having considered that (i) the PRC Legal Adviser confirmed that the OPCO has submitted the relevant application for filing registration with the local financial regulatory authority and the registration was not yet completed as a result of a temporary suspension on issue of details for the registration for online lending information service providers in the PRC; (ii) the Company will keep monitoring the relevant regulatory changes, and in any event will keep the Shareholders informed and make appropriate disclosures in the event of any material adverse change happen; (iii) the PRC Legal Adviser confirmed that no suspension or penalty was imposed on the operation of online lending information services business of OPCO; and (iv) the PRC Legal Adviser confirmed that OPCO has obtained legal and valid ICP Licence from the ZJCA, we concur with the views of the Directors that no unfavorable factors could be foreseen that may affect the normal business operation of the OPCO.

Under the relevant PRC Laws, none of the VIE Agreements provides that the Company or the WFOE, is obligated to share the losses of the OPCO Group, but if the OPCO Group suffers any losses or material difficulties of business, the WFOE may provide financial support as permitted under PRC laws at its discretion to the OPCO under the terms of the Exclusive Business Co-operation Agreement. Further, the OPCO is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under the PRC Laws, the Company or WFOE is not expressly required to share the losses of the OPCO Group or provide financial support to the OPCO Group. Despite the foregoing, given that the Group conducts the value-added telecommunications business in the PRC through the OPCO which holds the requisite ICP Licence, and that the OPCO Group's results of operations and assets and liabilities are consolidated into the Group's results of operations and assets and liabilities under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if the OPCO Group suffered losses. However, as provided in the Exclusive Purchase Right Agreement, the OPCO undertakes, among others, that without the prior written consent from the WFOE, the OPCO would not enter into any transaction that may affect the OPCO's assets, obligations, business or operations, details as set out in the Letter from the Board.

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With reference to the listing decision HKEx-LD43-3 and the guidance letter HKEx-GL77-14 and the terms of the VIE Agreements, (i) the WFOE has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO; (ii) the relevant restrictive provisions in the Exclusive Purchase Right Agreement provides that the potential adverse effect on WFOE and the Company in the event of any loss suffered from the OPCO Group can be limited to a certain extent; (iii) the Authorisation Agreement provides that (a) the PRC Equity Owners will not act in collusion with the persons authorised by the WFOE, against the interest of the WFOE; and (b) the authorisations will only be granted to the Directors or officers of the Company who are unrelated to the PRC Equity Owners and Mr. Zhi to avoid any conflict of interests; (iv) the VIE Agreements include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Bermuda, the PRC and the location where the principal assets of the Company or the OPCO are located; and (v) the VIE Agreements have given the power and authorisation to the WFOE in dealing with the OPCO's business and daily operations as well as the rights to assets and revenue, we concur with the view of the Directors that the VIE Agreements and the transactions contemplated thereunder are on normal commercial terms and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Having considered above, in particular that (i) the underlying business of OPCO is regarded as restricted business for foreign investors under PRC Laws; (ii) the Company has no intention to commence business of the Subsidiaries and has intention to dispose of its entire interest in the Subsidiaries to an independent third party, although the Subsidiaries are not engaged in restricted or prohibited business for foreign investors; and (iii) the Company will procure the OPCO to dispose of its entire interest in the Subsidiaries when PRC government policy allows the registration of change of shareholding structure of the Subsidiaries, we concur with the view of the Directors that the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and minimise the potential conflicts with relevant PRC laws and regulations as required under the guidance letter HKEx-GL77-14.

5. The waiver from strict compliance with the Listing Rules

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Agreements pursuant to Rule 14A.52 of the Listing Rules; and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the service fees payable by the OPCO to the WFOE.

5.1 Waiver from fixing the term of the VIE Agreements pursuant to Rule 14A.52 of the Listing Rules

Under the VIE Agreements, the financial results of the OPCO will be consolidated into the financial results of the Group and the entire economic benefits and the risks of the businesses of the OPCO will be effectively flowed to the WFOE. The VIE Structure will enable the WFOE to gain effective control over the finance and operation of the OPCO, which will be integrated into the ordinary course of business of the Group. Given that the Group has the intention to further grow the P2P Financing Information Business, currently operating by the OPCO, the Directors are of the view that the VIE Structure will be a long term arrangement of the Group. The Directors are also of the view that it would be unduly burdensome and impracticable, and would add

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

unnecessary administration costs of the Group for a renewal of the VIE Agreements for a fixed term periodically. It is commercially reasonable for the WFOE to enter into the VIE Agreements without a fixed duration in order to secure revenue generated from the P2P Financing Information Business and develop a stable business relationship with the clients in the medium to long term until the current restriction on the foreign ownership restriction in the profitable internet information service business (經營性互聯網信息服務) is removed under the PRC Laws.

In considering the duration of the VIE Agreements, we have conducted a research on variable-interest-entity structures adopted by companies (the “**Comparable Companies**” and each, a “**Comparable Company**”) listed on the Stock Exchange which enable the relevant listed company to obtain control over the operating business of the PRC companies in which foreign investment is restricted and/or prohibited by relevant PRC laws and regulations (the “**Comparable Transactions**”). We have identified Comparable Companies which (i) listed on the Stock Exchange in the last three months from the date of the Announcement (i.e. 4 October 2018); and (ii) operate in business under the VIE structures due to the restriction under the relevant PRC Laws and regulations. We consider that the Comparables Transactions are able to serve the purpose in forming a meaningful comparison for our assessment with the following grounds: (i) we are able to identify sufficient number of comparable companies on the website of the Stock Exchange in the last three months from the date of the Announcement (i.e. 4 October 2018) for comparison purpose; and (ii) from the prospectus of the Comparable Transactions, we can locate comprehensive information in relation to their VIE structures and we therefore have sufficient information in comparing their terms with the VIE Agreements. Based on the above, the list of Comparable Transactions which only consists of IPO companies forms a meaningful comparison in assessing the duration of the VIE Agreements. To the best of our knowledge, an exhaustive list of eleven Comparable Transactions have been found based on the aforementioned criteria. The table below illustrates the details of the Comparable Transactions:

Name of company	Principle business contemplated under the arrangements	Date of listing	Duration of VIE agreements	Subject to foreign investment restrictions and/or prohibitions in the PRC
1. China Renaissance Holdings Limited (1911)	Investment management	27 September 2018	No definite term	Subject to foreign investment restrictions and/or prohibitions according to respective investments
2. Meituan Dianping (3690)	E-commerce platform for services	20 September 2018	No definite term	Subject to foreign investment restrictions and prohibitions
3. China ChunLai Education Group Co., Ltd (1969)	Private education business	13 September 2018	No definite term	Subject to foreign investment restrictions
4. Hope Education Group Co., Ltd (1765)	Private education business	3 August 2018	No definite term	Subject to foreign investment restrictions
5. Bojun Education Co., Limited (1758)	Private education business	31 July 2018	No definite term	Subject to foreign investment restrictions

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Name of company	Principle business contemplated under the arrangements	Date of listing	Duration of VIE agreements	Subject to foreign investment restrictions and/or prohibitions in the PRC
6. 7Road Holdings Limited (797)	Online game development and operation	18 July 2018	Exclusive option agreement and exclusive business cooperation agreement: ten years; equity pledge agreement, spousal undertakings, dispute resolution: no definite term	Subject to foreign investment restrictions and prohibitions
7. 51 Credit Card Inc. (2051)	Provision of one-step personal financial services covering personal credit management, credit card technology services, and online credit facilitation and investment services.	13 July 2018	Exclusive option agreement and exclusive business cooperation agreement: ten years; share pledge agreement, power of attorney, spouse undertaking, dispute resolution: no definite term	Subject to foreign investment restrictions
8. Inke Limited (3700)	Operation of mobile live streaming platforms, provision of value-added telecommunication service, internet cultural service, online audio and video program service and talent agency service	12 July 2018	Exclusive consulting and service agreement: ten years; exclusive call option agreement, equity pledge agreement, power of attorney: no definite term	Subject to foreign investment restrictions and prohibitions
9. Finger Tango Inc. (6860)	Online game development and operation	12 July 2018	Exclusive option agreement, share pledge agreement, power of attorney, spouse undertaking: no definite term; Exclusive business cooperation agreement: ten years	Subject to foreign investment restrictions and prohibitions
10. Tianli Education International Holdings Limited (1773)	Private education business	12 July 2018	No definite term	Subject to foreign investment restrictions
11. Xiaomi Corporation (1810)	Engaging in global smartphone consumer internet of things, internet services and new retail industries	9 July 2018	No definite term	Subject to foreign investment restrictions and prohibitions

Source: the website of the Stock Exchange

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As shown above, the durations of the VIE agreements entered into by the Comparable Companies ranged from ten years to no definite term. The durations of the VIE Agreements of no definite term is in line with the market norm. In view of the above, we consider that it is a normal business practice for contracts of similar nature to the VIE Agreements to have no definite term.

5.2 Waiver from setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the service fees payable by the OPCO to the WFOE

As described in the Exclusive Business Co-operation Agreement, the OPCO shall transfer and pay a monthly service fee to the WFOE. This arrangement is equivalent to the Group operating the OPCO as its own subsidiary and the Group can fully enjoy the economic benefits generated by the OPCO. Setting a maximum annual cap for such service fee will limit the ability of the Group to operate the business and receive the economic benefits generated by the OPCO.

Therefore, we are of the view that it is commercially reasonable for the WFOE not to set a maximum aggregate annual cap for the services fees payable by the OPCO in order to allow effective operation of the Group, given that the VIE Agreements are fundamental to the Group's legal structure and business operations and are driven solely for the purpose of complying with PRC laws and regulations.

5.3 Conditions of the waivers

The Stock Exchange has agreed to grant the waiver subject to the following conditions, (i) no changes to the terms of any of the VIE Agreements will be made without the approval of the independent non-executive Directors; (ii) no changes to the terms of any of the VIE Agreements will be made without the approval of the Independent Shareholders; (iii) the VIE Agreement shall continue to enable the Group to receive the economic benefits derived by the OPCO Group through: (a) the WFOE's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in the OPCO; (b) the business structure under which the revenue generated by the OPCO is substantially retained by the WFOE; and (c) the WFOE's right to control the management and operation of, as well as, in substance, all of the voting rights of the OPCO; (iv) the VIE Agreements may be renewed and/or reproduced upon the expiry of the existing arrangements, without obtaining the approval of the Independent Shareholders, on substantially the same terms and conditions as the existing VIE Agreements; and (v) there will be ongoing reporting and approval procedures as disclosed in the Letter from the Board of this circular. We consider that the above mentioned conditions safeguard the interests of the Company and the Shareholders, in particular any change to the terms of any of the VIE Agreements will require the approval from the independent non-executive Directors and the Independent Shareholders.

6. Possible financial effects of the VIE Structure

Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO. As disclosed in the "Letter from the Board" of this Circular, the financial results of the OPCO will be consolidated into the Group's financial statements under the prevailing accounting principles upon entering into the VIE Agreements. As such, the Group will have additional revenue stream from the operation of the OPCO, which potentially improve the profitability of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

With respect to the waiver from setting a maximum aggregate annual cap for the services fees payable by the OPCO to the WFOE under the Exclusive Business Co-operation Agreement, we consider setting a maximum aggregate annual cap will limit the flow of economic benefits generated by the OPCO to the Group and the grant of the waiver is reasonable as the OPCO's financial results will be consolidated into the Group's financial statements from the date of obtaining such control. With respect to the waiver from fixing the term of the VIE Agreements pursuant to Rule 14A.52 of the Listing Rules, it is considered that, given the Comparable Transactions, it is a normal business practice for agreements of similar nature to the VIE Agreements to have no definite term.

Having considered the above factors, we consider that (i) although entering into the VIE Agreements is not in the ordinary and usual course of the business of the Group considering that the VIE Agreements and the transactions contemplated are not principal business of the Group; (ii) the terms of the VIE Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole; and (iii) the duration of the VIE Agreements without a definite term is commercially reasonable and is in line with the normal business practice for agreements of similar nature to the VIE Agreements. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the VIE Agreements.

* *For identification purpose only*

Yours faithfully,
For and on behalf of
Messis Capital Limited
Vincent Cheung
Managing Director

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Mesis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executives

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

(i) Interest in Shares

Name of Director	Capacity in which interests are held	Number of Shares held and class of securities (Note 1)	Number of Shares held under equity derivatives	Approximate percentage of shareholding (Note 2)
Mr. Zhi Hua	Interest of controlled corporation	322,409,404 (L) (Note 3)		49.15%
Mr. Lam Kai Yeung	Beneficial owner		5,192,000 (L) (Note 4)	
Mr. Ma Jun	Beneficial owner		1,000,000 (L) (Note 5)	

Notes:

- The percentage has been calculated based on 655,927,000 Shares in issue as at the Latest Practicable Date.
- The letter "L" denotes the Directors' long position in the Shares.
- These 322,409,404 shares are owned by Rosy Lane International Limited, a company incorporated in the British Virgin Islands and the entire issued share capital of which is beneficially owned by Mr. Zhi Hua. Mr. Zhi Hua is deemed to be interested in such Shares held by Rosy Lane International Limited under the SFO.
- It represents 5,192,000 share options granted on 16 January 2018 pursuant to the Share Option Scheme on 2 June 2010 and are exercisable at the price of HK\$0.854 per share, and a ten years validity period from 16 January 2018.
- It represents 1,000,000 share options granted on 16 January 2018 pursuant to the Share Option Scheme on 2 June 2010 and are exercisable at the price of HK\$0.854 per share, and a ten years validity period from 16 January 2018.

(ii) Interests in the shares of associated corporation of the Company

Name of Director	Capacity in which interests are held	Name of associated corporation of the Company	Approximate percentage of shareholding
Mr. Zhi	Interest of controlled corporation	The OPCO (<i>Note 1</i>)	100% (<i>Note 2</i>)

Notes:

- Through the VIE Agreements, the WFOE an indirect wholly-owned subsidiary of the Company, would have effective control of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership. The Company has discussed with its auditor and confirms that the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group under the prevailing accounting principles upon entering into the VIE Agreements. Accordingly, the OPCO becomes an associated corporation of the Company under the VIE Agreements.
- The OPCO is owned as to 90% and 10% by Zhis Holding Co and Ms. Yu, spouse of Mr. Zhi. Zhis Holding Co is in turn owned as to 60% and 40% by Mr. Zhi and Ms. Yu, the spouse of Mr. Zhi. Accordingly, Mr. Zhi is deemed to be 100% interested in such shares held by Zhis Holding Co under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(b) Substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholders	Capacity	Number of Shares held and class of securities (Note 1)	Approximate percentage of shareholding (Note 2)
Rosy Lane International Limited	Beneficial owner	322,409,404 (L) (Note 3)	49.15%
Mr. Ng Leung Ho	Beneficial owner	103,950,000 (L) (Note 4)	15.85%
Mr. Ng Tsze Lun	Beneficial owner	50,173,000 (L)	7.65%
Ms. Yau Yuk Chun Carole	Interest of spouse	50,173,000 (L) (Note 5)	7.65%

Notes:

1. The percentage has been calculated based on 655,927,000 Shares in issue as at the Latest Practicable Date.
2. The letter "L" denotes the individual's or the corporation's long position in the Shares.
3. Rosy Lane International Limited is a company incorporated in the British Virgin Islands and the entire issued share capital of which is beneficially owned by Mr. Zhi Hua.
4. Apart from 103,950,000 Shares of the Company, there are also 322,326,500 Shares of the Company charged to Mr. Ng Leung Ho under a share charge as security for a loan from Bloom Dragon Finance Limited. Bloom Dragon Finance Limited is owned as to 50% by Mr. Ng Chi Lung and 50% by Good Fellow Group Limited. Good Fellow Group Limited is owned as to 99.99% by Hillbrow Securities Limited.
5. Ms. Yau Yuk Chun Carole is the wife of Mr. Ng Tsze Lun. Under the SFO, Ms. Yau Yuk Chun Carole is deemed to be interested in the same number of shares in which Mr. Ng Tsze Lun is interested.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
Messis Capital Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2018, being the date to which the latest published consolidated financial statements of the Group was made up.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. MISCELLANEOUS

- (a) Save and except the VIE Agreements, there is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group as at the Latest Practicable Date.
- (b) Save as disclosed in (a) above, as at the Latest Practicable Date, neither the Independent Financial Adviser nor any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 March 2018, being the date to which the latest published consolidated financial statements of the Group were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on business days at the office of the Company at 25th & 26th Floor, No. 238 Des Voeux Road Central, Hong Kong from the date of this circular up to and including 10 December 2018:

- (a) the memorandum and articles of association of the Company;
- (b) the VIE Agreements;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 54 to 55 of this circular;
- (d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 56 to 80 of this circular;
- (e) the written consent of the Independent Financial Adviser as referred to in paragraph headed “4. Expert” of this Appendix; and
- (f) this circular.

NOTICE OF SGM



HUA LONG JIN KONG COMPANY LIMITED

華隆金控有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1682)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an special general meeting of Hua Long Jin Kong Company Limited (“**Company**”) of the shareholders (the “**Shareholders**”) will be held on Monday, 10 December 2018 at 3:00 p.m. at 26th Floor, No.238 Des Voeux Road Central, Hong Kong, for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“**THAT**

- (a) the entering into of the VIE Agreements (as defined in the Company’s circular dated 20 November 2018 (the “**Circular**”), a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose, and 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, for and on behalf of the Company, to do all acts and things as they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the VIE Agreements and the transactions contemplated thereunder, and to execute all such other documents, instruments and agreements (including the affixation of the Company’s common seal, if required) deemed by them to be incidental to, ancillary to or in connection with the entering into of the VIE Agreements and the transactions contemplated thereunder.”

Yours faithfully,

By order of the Board

Hua Long Jin Kong Company Limited

Zhi Hua

Chairman

Hong Kong, 20 November 2018

NOTICE OF SGM

Head office and Principal place of business in Hong Kong:

25th & 26th Floor,
No. 238 Des Voeux Road
Central, Hong Kong

Notes:

1. Any Shareholder of the Company entitled to attend and vote at the above meeting may appoint another person as his proxy to attend and to vote instead of him. A proxy need not be a member of the Company.
2. All resolution(s) at the special general meeting will be taken by way of poll pursuant to the Listing Rules and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
3. Where there are joint registered holders of any share of the Company, any one such person may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons 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. The vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof must be delivered to the office of the Company's Hong Kong branch share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
5. A form of proxy for use at the meeting is being despatched to the shareholders of the Company together with a copy of this notice.
6. Members of the Company whose names appear on the register of members of the Company at 4:30 p.m. on Friday, 7 December 2018 shall be entitled to attend and vote at the SGM. In order to be entitled to attend and vote at the SGM, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 7 December 2018.
7. As at the date hereof, the board of directors comprises Mr. Zhi Hua, Mr. Lam Kai Yeung, and Mr. Ma Jun as executive directors; Mr. Chan Kin as non-executive director; and Mr. Li Hui, Mr. Chau On Ta Yuen and Dr. Lam Lee G as independent non-executive directors.