



18 July 2018

To the Independent Board Committee of Power Financial Group Limited

Dear Sirs,

**CONDITIONAL VOLUNTARY SECURITIES EXCHANGE PARTIAL OFFER
AND OPTION OFFER BY OPTIMA CAPITAL LIMITED
ON BEHALF OF JICHENG INVESTMENT LIMITED
TO ACQUIRE 1,593,874,096 ISSUED SHARES
IN THE ORDINARY SHARE CAPITAL OF
POWER FINANCIAL GROUP LIMITED AND
TO CANCEL A MAXIMUM OF 20,068,200 OUTSTANDING OPTIONS OF
POWER FINANCIAL GROUP LIMITED**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in respect of the Offers. The details of the Offers are set out in the Response Document, of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Response Document unless the context requires otherwise.

On 17 November 2017, the Offeror proposed to the Board that it would make a pre-conditional voluntary securities exchange partial offer and option offer to (i) acquire 1,593,874,096 issued Shares (represented approximately 54.74% of the issued Shares as at the date of the Initial Announcement); and (ii) to cancel a maximum of 116,886,645 outstanding Options (represented approximately 54.74% of all outstanding Options as at the date of the Initial Announcement).

On 22 December 2017 and 29 December 2017, the Company made announcements, disclosing that an aggregate of 58,220,000 and 116,440,000 Shares have been allotted and issued upon the exercise of 58,220,000 and 116,440,000 2013 Options by the relevant holders of the 2013 Options respectively at the exercise price of HK\$0.17 per Share. On 18 April 2018, all 2003 Options were lapsed. Therefore, as at the Latest Practicable Date, the Company had 3,086,372,734 Shares in issue and 38,860,000 outstanding 2013 Options which entitle the

holders of the 2013 Options to subscribe for 38,860,000 Shares at the exercise price of HK\$0.142 per Share with the exercise period commencing from 10 April 2017 to 9 April 2019.

On 27 June 2018, the Offeror made an announcement in relation to the update on the Offers, stating that the Pre-Conditions to the Offers have been fulfilled.

The Offeror despatched the Offer Document to the Independent Shareholders and holders of the Options on 4 July 2018. A Partial Offer was made by the Offeror to acquire 1,593,874,096 Shares (representing approximately 51.64% of the issued share capital of the Company as at the Latest Practicable Date). An Option Offer was made to the holders of the Options in accordance with Rule 13 of the Takeovers Code to cancel up to 20,068,200 outstanding Options (representing approximately 51.64% of all outstanding Options as at the Latest Practicable Date).

As disclosed in the Offer Document, the Offeror makes the Offers in accordance with the Takeovers Code on the following basis:

The Partial Offer:

For every 4 existing Shares 5 China Jicheng Shares

The Option Offer:

For cancellation of every 320
2013 Options at HK\$0.142 123 China Jicheng Shares

Further details of the terms of the Offers, including the procedures for acceptance and settlement of the Offers, are set out in the Offer Document.

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors. The Independent Board Committee, comprising all of the non-executive Directors, namely Mr. Choi Chun Chung, Danny (who is the sole non-executive Director) and Mr. Wong Kun To, Mr. Chu Hau Lim and Ms. Lim Xue Ling, Charlene (being all the independent non-executive Directors), has been established to advise the Independent Shareholders and the holders of the Options in respect of the Offers. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee in respect of the Offers and such appointment has been approved by the Independent Board Committee.

We and our staff are not in the same group as the Offeror's or the Company's financial or other professional advisers. We also do not and did not have any significant connection, financial or otherwise, with the Offeror or the Company or their respective controlling shareholders of a kind reasonably likely to create, or to create the perception of, a conflict of interest or which is reasonably likely to affect the objectivity of our advice as referred to in Rule 2.6 of the Takeovers Code. Further, we are not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates and there is also no relationships or interests with the Company or any other parties that could reasonably be

regarded as relevant to our independence to act as independent financial adviser to the Independent Board Committee. In the last two years, other than our role as independent financial adviser, there was no other engagement between the Company and us. Also, apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive or substantial shareholders of the Company or any of their respective associates. Accordingly, we are suitable to give independent advice in respect of the Offers.

Our role is to provide the Independent Board Committee with an independent opinion and recommendation as to whether the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the holders of the Options are concerned and whether or not the Independent Board Committee should recommend (i) the Independent Shareholders to approve the Partial Offer; and (ii) the Independent Shareholders and the holders of the Options to accept the Partial Offer and Option Offer respectively.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders and the holders of the Options, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions. Our procedures include, among others, review of the annual report of the Company for the financial year ended 31 December 2017 (the “**2017 Power Financial Annual Report**”), annual report of the Company for the financial year ended 31 December 2016 (the “**2016 Power Financial Annual Report**”), the unaudited consolidated management accounts of the Group for the period from 1 January 2018 up to 31 May 2018, the unaudited management accounts of certain major operating subsidiaries of the Group for the period from 1 January 2018 up to 30 June 2018, the annual report of China Jicheng for the financial year ended 31 December 2017 (the “**2017 China Jicheng Annual Report**”), annual report of China Jicheng for the financial year ended 31 December 2016 (the “**2016 China Jicheng Annual Report**”), the Offer Document, the Response Document, the share price performance and trading liquidity of the Company and China Jicheng and comparable companies to the Company.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Response Document (other than those relating to the Offeror, its ultimate beneficial owner(s), China Jicheng and parties acting in concert with them and the terms of the Offers), and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information (other than that relating to the Offeror, its ultimate beneficial owner(s), China Jicheng and parties acting in concert with them and the terms of the Offers) contained, and opinions expressed in the Response Document have been arrived at after due and careful consideration and is accurate and complete in all material respects and not misleading or deceptive and there are no other facts or matters not contained in the Response Document the omission of which would make any statement in the Response Document misleading.

The information contained in the Response Document relating to the Offeror, its ultimate beneficial owner(s), China Jicheng and parties acting in concert with them and the terms of the Offers has been extracted or derived from the Offer Document. The Directors jointly and severally accept full responsibility for the correctness and fairness of the reproduction or presentation of such information but accept no further responsibility in respect of such information.

We have assumed that all information and representations that have been provided by the Directors, for which they are solely and jointly responsible, are true and accurate at the time when they were made and continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to the end date of the Offer Period. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Response Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Response Document, or the reasonableness of the opinions expressed by the Directors, which have been provided to us. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to herein and our opinion after the Latest Practicable Date and throughout the Offer Period.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification on the information included in the Response Document and provided to us by the Directors nor have we conducted any form of in-depth investigation into the business, affairs, financial performance and positions or future prospects of the Group, the Offeror and their respective associates.

We have not considered the tax consequences on the Independent Shareholders and the holders of the Options of their acceptance or non-acceptance of the Offers since these are particular to their own individual circumstances and they should consult their own professional advisers if they are in any doubt on their own tax positions with regard to the Offers.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Offers, we have considered the following principal factors and reasons.

1. Background and terms of the Offers

As set out in the “Introduction” of this letter, on 17 November 2017, the Offeror proposed to the Board that it would make a pre-conditional voluntary securities exchange partial offer and option offer. On 27 June 2018, the Offeror made an announcement in relation to the update on the Offers, stating that the Pre-Conditions to the Offers have been fulfilled.

As at the Latest Practicable Date, the Company had (i) 3,086,372,734 Shares in issue and (ii) 38,860,000 outstanding 2013 Options granted under the 2013 Share Option Scheme, which may be converted into an aggregate of 38,860,000 Shares at the exercise price of HK\$0.142 per Share with the exercise period commencing from 10 April 2017 to 9 April 2019. Save for the 2013 Options, the Company has no outstanding warrants, options or derivatives in respect of the Shares or securities convertible into Shares as at the Latest Practicable Date.

A Partial Offer was made by Optima Capital, on behalf of the Offeror, to acquire 1,593,874,096 Shares (representing approximately 51.64% of the issued share capital of the Company as at the Latest Practicable Date) and an Option Offer was made to the holders of the Options in accordance with Rule 13 of the Takeovers Code to cancel up to 20,068,200 outstanding Options (representing approximately 51.64% of all outstanding Options as at the Latest Practicable Date).

According to the information as disclosed in the Offer Document, the Offeror, its sole director and parties acting in concert with it held 2,462,818,000 China Jicheng Shares as at the Offer Document Latest Practicable Date and will settle the consideration of the Offers by way of exchanging part of the China Jicheng Shares held by it.

As disclosed in the Offer Document, the Offeror makes the Offers in accordance with the Takeovers Code on the following basis:

The Partial Offer:

For every 4 existing Shares 5 China Jicheng Shares

As set out above, the exchange ratio of the Partial Offer is five China Jicheng Shares for every four existing Shares (the “**Exchange Ratio**”).

As disclosed in the Offer Document, as at the Offer Document Latest Practicable Date, the Offeror, its sole director and parties acting in concert with it did not hold any Shares or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, and neither the Offeror nor parties acting in concert with it held or had control or discretion over any Shares or held any convertible securities, warrants or options in respect of any Shares.

As the Offers (if completed) could result in the Offeror holding more than 50% of the voting rights of the Company, if the Offers succeed, the Offeror will be free, subject to Rule 28.3 of the Takeovers Code, to acquire further Shares without incurring any obligation to make a general offer under the Takeovers Code.

The Option Offer:

For cancellation of every 320 2013 Options
at HK\$0.142..... 123 China Jicheng Shares

The Offers are conditional upon those Conditions set out in the section headed “Conditions to the Offers” in the “Letter from Optima Capital” of the Offer Document.

2. Business and financial information on the Group

The Company was incorporated in Bermuda and its Shares are listed on the Stock Exchange. The principal activities of the Company and its subsidiaries are, among others, provision for money lending, carry on regulated activity in connection with dealing in securities, asset management, corporate finance and assets investment business.

Set out below is a summary of the audited financial information of the Group for the two years ended 31 December 2017 as extracted from the 2017 Power Financial Annual Report.

	For the year ended	
	31 December	
	2017	2016
	(Audited)	(Audited)
	(HK\$'000)	(HK\$'000)
Revenue from continuing operations		
Interest income from money lending	3,511	10,418
Income from financial services		
– Commission income from securities brokerage	6,397	10,423
– Commission income from placing and underwriting	2,362	20,679
– Interest income from clients	23,275	29,035
	<u>35,545</u>	<u>70,555</u>
Total Revenue from continuing operations	35,545	70,555
Loss for the year attributable to owners of the Company from continuing operations	(922,661)	(921,205)
	<u>(922,661)</u>	<u>(921,205)</u>
	As at 31 December	
	2017	2016
	(Audited)	(Audited)
	(HK\$'000)	(HK\$'000)
Equity attributable to owners of the Company	<u>2,009,327</u>	<u>2,869,036</u>

For the year ended 31 December 2017, the revenue from continuing operations of the Group was approximately HK\$35.5 million, representing a decrease of approximately 49.7% from approximately HK\$70.6 million for the year ended 31 December 2016. The drop in the revenue from continuing operations of the Group was due to the fund-raising transactions by the Group's financial services business being less active in year 2017 as compared with the prior year and thus generating income from placing and underwriting activities of approximately HK\$2.4 million for the year ended 31 December 2017 as compared with approximately HK\$20.7 million for the year ended 31 December 2016. For the year ended 31 December 2017, the loss attributable to owners of the Company from continuing operations was approximately HK\$922.7 million as compared with the loss attributable to owners of the Company from continuing operations of approximately HK\$921.2 million for the year ended 31 December 2016. Such loss for the year ended 31 December 2017 was principally attributable to the losses arising from fair value changes of held-for-trading investments of approximately HK\$764 million and impairment loss on available-for-sale investments of approximately HK\$141 million.

As at 31 December 2017, the Group's equity attributable to owners of the Company was approximately HK\$2,009.3 million.

Outlook

The Group started its financial services business in October 2014 and this business has become the core business segment for the Group which accounted for over 90% of the Group's total revenue for the year ended 31 December 2017. For the year ended 31 December 2017, the financial services business of the Group recorded a revenue of approximately HK\$32 million, representing a decrease of approximately 46.7% from the prior year. As set out above, the drop in the revenue of the Group's financial services business during the year was mainly due to the decrease in income derived from placing and underwriting activities. Going forward, the financial services business of the Group is expected to remain as the core business of the Group. As noted in the 2017 Power Financial Annual Report, the Group has continued to expand its service offerings from securities brokerage to corporate finance and asset management.

Further, we noted that to support the Group's development in the financial services business, the Company has appointed Mr. Wu William Wai Leung ("Mr. Wu") as its chief executive officer and executive Director in November 2017. Mr. Wu possesses over 24 years of experience in investment banking, capital markets, institutional broking and direct investment businesses and he is in charge of leading the Group to grow its financial services business.

As the Group will continue to operate and expand in the financial services industry in Hong Kong, we have assessed the Hong Kong's financial services industry. The Hong Kong stock market was ranked 3rd and 6th in Asia and worldwide in terms of market capitalisation respectively with market capitalisation of approximately HK\$4,383.41 billion as at the end of March 2018 as extracted from the data published by the SFC. The number of listed companies on the Stock Exchange also rose from 1,241 in 2007 to 2,118 in 2017, with a compound annual growth rate ("CAGR") of approximately 5.49%. With the increasing number of listed companies in Hong Kong, the level of equity fund raising on

the Stock Exchange, whether through initial public offerings or other new issue, has been active, though the amount of funds raised has been volatile in the past years. According to the market and industry statistics published by the SFC, the equity funds raised on the Main Board of the Stock Exchange during the year 2015 reached approximately HK\$1,087.0 billion. Equity funds raised on the Main Board of the Stock Exchange during the year 2016 and 2017 dropped to approximately HK\$471.2 billion and HK\$566.0 billion respectively but still representing a CAGR of approximately 11.1% for the period from 2012 to 2017. During the same period, the equity funds raised on GEM of the Stock Exchange have increased more rapidly, recording a CAGR of approximately 18.3%.

Despite the Group recording a loss for the year ended 31 December 2016 and 2017, in view of the optimistic outlook of the financial services industry of Hong Kong, we remain cautiously optimistic with the prospects of the Group given the recent appointment of Mr. Wu, who possesses the experience in the financial services industry and is leading the Group to develop its financial services business, and the Group's continual expansion of its financial services offering.

3. Business and financial information on China Jicheng Group

According to the information as disclosed in the Offer Document, China Jicheng is an investment holding company which has been listed on the Stock Exchange since 2015, and China Jicheng Group is principally engaged in the manufacturing and sale of POE umbrellas, nylon umbrellas and umbrella parts such as plastic, cloth and shaft.

Set out below is a summary of the audited financial information of China Jicheng Group for the two years ended 31 December 2017 as extracted from the 2017 China Jicheng Annual Report.

	For the year ended	
	31 December	
	2017	2016
	(Audited)	(Audited)
	(RMB'000)	(RMB'000)
Revenue	538,264	603,985
Profit attributable to owners of China Jicheng	<u>3,530</u>	<u>6,124</u>
	As at 31 December	
	2017	2016
	(Audited)	(Audited)
	(RMB'000)	(RMB'000)
Equity attributable to owners of China Jicheng	<u>440,586</u>	<u>430,983</u>

For the year ended 31 December 2017, the revenue of China Jicheng Group was approximately RMB538.3 million, representing a decrease of approximately 10.9% from

approximately RMB604.0 million for the year ended 31 December 2016. As set out in the 2017 China Jicheng Annual Report, the decrease in revenue of China Jicheng Group was primarily due to the decrease in demand and sales volume for polyolefin elastomers umbrellas and nylon umbrellas as a result of poor market situation in both the PRC and export markets as compared to the prior year. For the year ended 31 December 2017, the profit attributable to owners of China Jicheng was approximately RMB3.5 million, representing a decrease of approximately 42.6% from RMB6.1 million for the year ended 31 December 2016. Such decrease in the profit of China Jicheng Group was mainly due to, amongst others, the decrease in its revenue and increase in its administrative expenses.

As at 31 December 2017, China Jicheng Group's equity attributable to owners of the Company was approximately RMB440.6 million.

Outlook

The revenue and profit of China Jicheng Group has been decreasing since 2015. For the year ended 31 December 2015, the revenue and profit attributable to owners of China Jicheng was approximately RMB657.7 million and RMB25.2 million respectively. For the year ended 31 December 2017, the revenue and profit attributable to owners of China Jicheng was approximately RMB538.3 million and RMB3.5 million respectively. As discussed above and as disclosed in the 2017 China Jicheng Annual Report as well as the 2016 China Jicheng Annual Report, the decrease in the revenue and profitability of China Jicheng Group was mainly due to the poor market situation in both the PRC and export markets. Whilst China Jicheng Group plans to shift business focus from developing upstream manufacturing to downstream distribution network and brand building so as to facilitate promotion of the Group's branded umbrellas in order improve the revenue and profitability of China Jicheng Group as disclosed in the 2017 China Jicheng Annual Report, there is still no certainty as to whether China Jicheng Group will be able to improve on its revenue and profitability going forward at this stage.

4. Intention of the Offeror

As disclosed in the Offer Document, the Board noted that the Offeror intends to continue the current principal business of the Company and is committed to the stability of the principal business and principal operations of Company after closing of the Offers and the Offeror has no plans, if the Offers are completed, to: (i) make any major redeployment of assets of the Group; or (ii) discontinue the employment of the employees of the Group (other than in the ordinary course of business).

Please refer to the section headed "Intentions of the Offeror" in the "Letter from Optima Capital" of the Offer Document for further information.

We noted that the Offeror intends to continue the current principal business of the Group and also has no intention to make any major redeployment of assets of the Group or discontinue the employment of the employees of the Group (other than in the ordinary course of business) if the Offers are completed. However, attention should be drawn to the Independent Shareholders and the holders of the Options that the Offeror's sole director founded and manages China

Jicheng Group which as set out above is principally engaged in the manufacturing and sale of POE umbrellas, nylon umbrellas and umbrella parts such as plastic, cloth and shaft and therefore does not have any direct experience in the current principal businesses of the Group. Although the Offeror has stated that it intends to nominate additional director(s) to the Board, as at the Latest Practicable Date, no candidates has been identified and therefore there is not sufficient information to determine the suitability of such new directors. Further, as set out in “Business and financial information on China Jicheng Group”, we also noted that the financial performance of China Jicheng Group has been deteriorating in the last few years and therefore there could be uncertainty in the ability of the Offeror in managing the business of the Group.

In light of the above and in particular that the sole director of the Offeror does not have any direct experience in the current principal businesses of the Group and the financial performance of China Jicheng Group (which is founded and being managed by the sole director of the Offeror) has been deteriorating in the last few years, we are of the view that there could be uncertainties in the future business development of the Group should the Partial Offer become unconditional.

5. Maintaining the listing status of the Company

As disclosed in the Offer Document, the Offeror intends to maintain the listing status and public float of the Company after closing of the Offers, and the sole director of the Offeror has undertaken to the Stock Exchange, and should the Offers become unconditional, the new directors (if any) to be appointed to the Board will jointly and severally undertake to the Stock Exchange, to take appropriate steps (including placing down of sufficient number of accepted Shares by the Offeror) to ensure that sufficient public float exists in the Shares.

Please refer to the section headed “Maintaining Listing Status of Power Financial” in the “Letter from Optima Capital” of the Offer Document for further information.

The Stock Exchange has stated that if, at the completion of the Offers, less than 25% of the Shares are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares.

Upon completion of the Offers, if the public float of the Company is below 25%, i.e. the minimum public float under the Listing Rules, trading in the Shares may be suspended until a level of sufficient public float can be attained.

6. Analysis of the Partial Offer

In analysing the Partial Offer, we have calculated the ascribed value per Share under the Partial Offer which is the price of the Shares calculated based on the Exchange Ratio. Based on the closing price of each China Jicheng Share of HK\$0.164 as quoted on the Stock Exchange on

the Last Trading Day and multiplied by 5 and divided by 4 for each Share (i.e., the Exchange Ratio), the ascribed value is HK\$0.205 per Share (the “Ascribed Value”). The Ascribed Value of HK\$0.205 per Share represents:

- (i) a premium of approximately 20.59% over the closing price of HK\$0.170 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a discount of approximately 13.50% to the average closing price of HK\$0.237 per Share as quoted on the Stock Exchange during the period after the Last Trading Day (i.e., 17 November 2017) up to the Latest Practicable Date;
- (iii) a premium of approximately 13.89% over the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on the Offer Document Latest Practicable Date;
- (iv) a premium of approximately 17.14% over the closing price of the Share of HK\$0.175, as quoted on the Stock Exchange on 16 November 2017, being the Last Trading Day;
- (v) a premium of approximately 28.93% to the average closing price of approximately HK\$0.159 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 33.99% to the average closing price of approximately HK\$0.153 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day; and
- (vii) a discount of approximately 68.61% over the audited consolidated net assets per Share of approximately HK\$0.653 as at 31 December 2017 (being the date to which the latest audited consolidated results of the Group were made up), calculated based on the Group’s net asset value of approximately HK\$2.014 billion as at 31 December 2017 and 3,086,372,734 Shares in issue as at the Latest Practicable Date.

In analysing the Partial Offer, we have also calculated the implied value per share of China Jicheng under the Partial Offer which is the price of the China Jicheng Shares calculated based on the Exchange Ratio. Based on the closing price of HK\$0.175 per Share as quoted on the Stock Exchange on the Last Trading Day multiplied by 4 and divided by 5 for each China Jicheng Share (i.e., the Exchange Ratio), the implied value is HK\$0.14 per China Jicheng Share (the “Implied Value”). The Implied Value of HK\$0.14 per China Jicheng Share represents:

- (i) a premium of approximately 145.61% over the closing price of HK\$0.057 per China Jicheng Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a premium of approximately 62.79% over the average closing price of HK\$0.086 per China Jicheng Share as quoted on the Stock Exchange during the period after the Last Trading Day (i.e., 17 November 2017) up to the Latest Practicable Date;

- (iii) a premium of approximately 137.29% over the closing price of HK\$0.059 per China Jicheng Share as quoted on the Stock Exchange on the Offer Document Latest Practicable Date;
- (iv) a discount of approximately 14.63% to the closing price of the China Jicheng Share of HK\$0.164, as quoted on the Stock Exchange on 16 November 2017, being the Last Trading Day;
- (v) a premium of approximately 11.11% over the average closing price of approximately HK\$0.126 per China Jicheng Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 28.44% over the average closing price of approximately HK\$0.109 per China Jicheng Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day; and
- (vii) a discount of approximately 2.10% to the audited consolidated net assets per China Jicheng Share of approximately HK\$0.143 (equivalent to approximately RMB0.116) as at 31 December 2017 (being the date to which the latest audited consolidated results of China Jicheng Group were made up), calculated based on China Jicheng Group's net asset value of approximately RMB440,586,000 as at 31 December 2017 and 3,786,000,000 China Jicheng Shares in issue as at the Offer Document Latest Practicable Date and based on the exchange rate of HK\$1.00 to RMB0.81 (for illustrative purpose only).

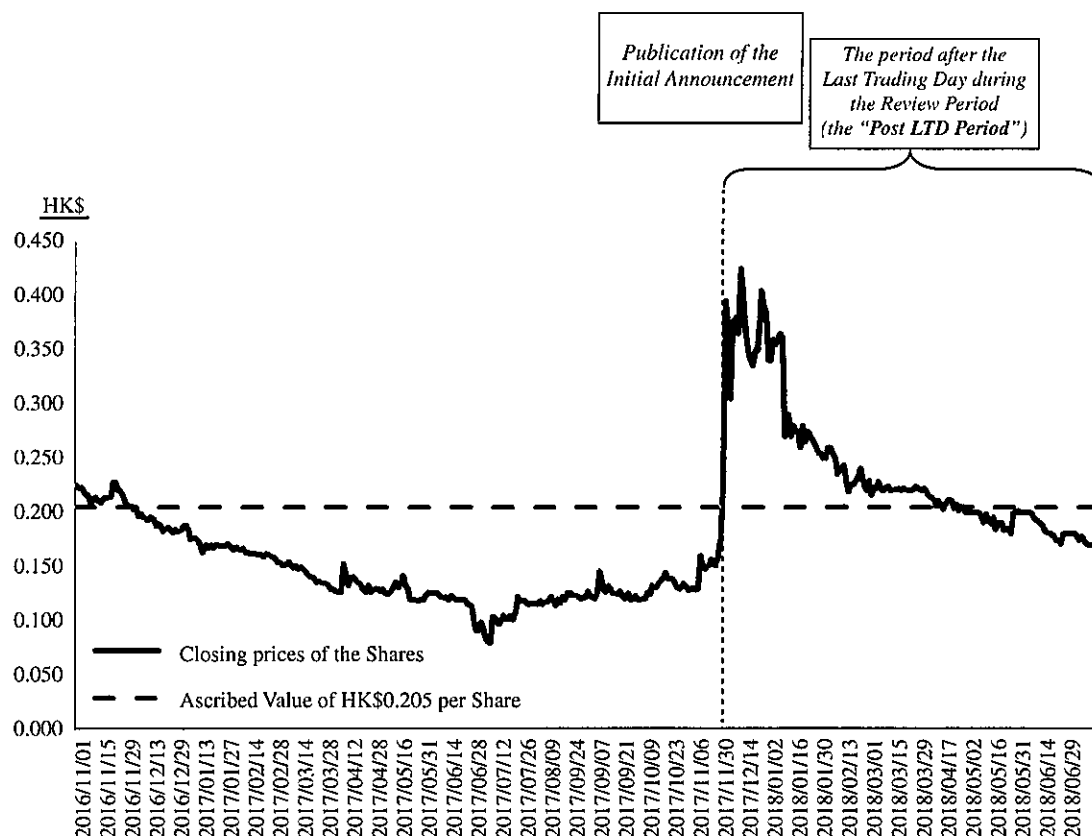
In order to assess the fairness and reasonableness of the Partial Offer, we have conducted the following analyses:

(a) Share price performance

We have reviewed and analysed the closing prices of the Shares and the China Jicheng Shares from 1 November 2016 (being approximately the 12-month period prior to the Last Trading Day) up to the trading day immediately preceding the Latest Practicable Date (the "Review Period"). The Review Period is selected on the basis that it is a reasonable time frame given that it covers a period encompassing one full calendar year prior to the Last Trading Day and the subsequent period thereafter up to the trading day immediately preceding the Latest Practicable Date. Such period is also sufficient for us to carry out our analysis on the historical share price performance of the Company and China Jicheng and the trading liquidity of the Shares and the China Jicheng Shares as we consider that such time frame is long enough to avoid any short-term fluctuation which may distort our analysis and that it also reflects the recent share price performance of the Company and China Jicheng as well as the recent trading volume of the Shares and the China Jicheng Shares.

Share price performance of the Company

The following is a chart of the closing prices of the Shares as compared with the Ascribed Value during the Review Period:



Note: Trading in the Shares was halted from 1:54 p.m. on 7 July 2017 to 9 July 2017 and from 2:40 p.m. on 17 November 2017 to 29 November 2017.

Source: website of Stock Exchange

As illustrated in the chart above, the closing prices of the Shares was trading in the range of HK\$0.079 to HK\$0.425 per Share during the Review Period and therefore the Ascribed Value of HK\$0.205 per Share represents a premium of approximately 159.49% and a discount of approximately 51.76% respectively over/to the range of closing prices of the Shares during the Review Period.

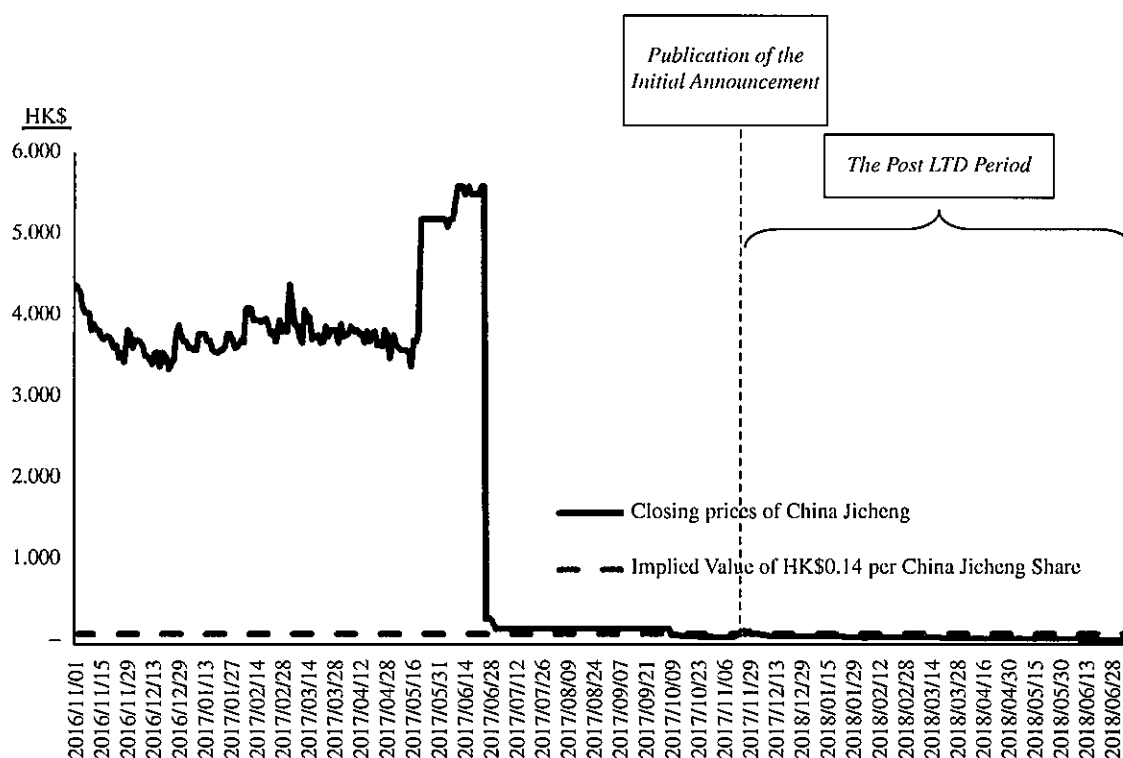
As noted in the chart above, whilst the closing price of the Shares has only been at or above the Ascribed Value for 23 out of 259 trading days from 1 November 2016 and up to the Last Trading Day, the closing prices of the Shares have been at or above the Ascribed Value for 94 out of 151 trading days in the Post LTD Period. We have enquired with the Company regarding the possible reasons for the increase in closing prices of the Shares during the Post LTD Period and as advised by the Company, it is of the view that the publication of the announcement of the Offers may have an

impact on the movement of the prices of the Shares and hence the current price of the Shares may or may not sustain in the future.

During the Post LTD Period, the average closing price of the Shares was approximately HK\$0.238 per Share and therefore the Ascribed Value represents a discount of approximately 13.87% to such average closing price of the Shares.

Share price performance of China Jicheng

The following is a chart of the closing prices of the China Jicheng Shares as compared with the Implied Value during the Review Period:



Note: Trading in the Shares was halted in the afternoon session on 15 November 2017 and from 2:21 p.m. on 17 November 2017 to 28 November 2017.

Source: website of Stock Exchange

As illustrated in the chart above, the closing prices of the China Jicheng Shares was trading in the range of HK\$0.055 to HK\$5.600 per China Jicheng Share during the Review Period and therefore the Implied Value of HK\$0.14 per Share represents a discount of approximately 97.50% and a premium of approximately 154.55% respectively to/over the range of closing prices of the China Jicheng Shares during the Review Period.

As noted in the chart above, the closing prices of the China Jicheng Shares was rather volatile during the Review Period. From 1 November 2016 to 26 June 2017, the

China Jicheng Shares was trading in the range of HK\$3.360 to HK\$5.600 per China Jicheng Share and the closing price per China Jicheng Shares was HK\$5.600 on 26 June 2017. However, on 27 June 2017, the closing price of the China Jicheng Shares has dropped significantly to HK\$0.320 per China Jicheng Share, representing a decrease of approximately 94.29% from the closing price of HK\$5.600 per China Jicheng Share on the prior trading day (i.e., 26 June 2017). In our review of the announcements of China Jicheng, on 27 June 2017, China Jicheng published an announcement stating that it was not aware of any reasons for the drop in its share price and the increase in the trading volume of its shares. From 27 June 2017 to 3 July 2017, the closing price of the China Jicheng Shares has further dropped from HK\$0.320 per China Jicheng Share to HK\$0.200 per China Jicheng Share, representing a decrease of approximately 37.50%. In our review of the announcements of China Jicheng, on 3 July 2017, China Jicheng published an announcement stating that on 30 June 2017 and 3 July 2017, a substantial shareholder of China Jicheng had disposed of 30,008,000,000 China Jicheng Shares and 3,167,740,000 China Jicheng Shares respectively, representing approximately 4.01% and approximately 4.22% of the then total issued China Jicheng Shares, at the average consideration of approximately HK\$0.0128 per China Jicheng Share and approximately HK\$0.0101 per China Jicheng Share respectively through on-market transactions on the trading platform of the Stock Exchange. From 4 July 2017 to the Last Trading Day, the closing prices of the China Jicheng Shares was trading in the range of HK\$0.086 to HK\$0.200 per China Jicheng Share and therefore the Implied Value represents a premium of approximately 62.79% and a discount of approximately 30.00% respectively over/to such range of closing prices of the China Jicheng Shares.

During the Post LTD Period, the closing prices of the China Jicheng Shares has continued to decrease from HK\$0.171 per China Jicheng Share on the trading day immediately after the Last Trading Day to HK\$0.057 per China Jicheng Share on the trading day immediately preceding the Latest Practicable Date, representing a decrease of approximately 66.67%. We noted that during the Post LTD Period, China Jicheng has published its 2017 China Jicheng Annual Report, which reported a decrease in profit attributable to owners of China Jicheng of approximately 42.6% for the year ended 31 December 2017 as compared with the prior year. Further, during the Post LTD Period, the average closing price of the China Jicheng Shares was approximately HK\$0.086 per China Jicheng Share and therefore the Implied Value represents a premium of approximately 62.79% over such average closing price of the China Jicheng Shares.

(b) The share price value and net asset value of the Shares and the China Jicheng Shares based on the Exchange Ratio

We have also analysed the share price value and the net asset value of the Shares and the China Jicheng Shares based on the Exchange Ratio. The following table is a comparison of the share price value and the net asset value of the Shares and the China Jicheng Shares based on the Exchange Ratio:

	Share price value of one Share	Share price value of one China Jicheng Share	Share price value of 4 Shares: 5 China Jicheng Shares	Share price value of 5 China Jicheng Shares as a percentage of the share price value of 4 Shares
Closing price per share on Last Trading Day	HK\$0.175	HK\$0.164	HK\$0.70: HK\$0.82	117%
5-day average closing price up to the Last Trading Day	HK\$0.159	HK\$0.126	HK\$0.64: HK\$0.63	98%
10-day average closing price up to the Last Trading Day	HK\$0.153	HK\$0.109	HK\$0.612: HK\$0.545	89%
Closing price on the Offer Document Latest Practicable Date	HK\$0.180	HK\$0.059	HK\$0.72: HK\$0.295	41%
5-day average closing price up to the Offer Document Latest Practicable Date	HK\$0.180	HK\$0.060	HK\$0.72: HK\$0.30	42%
10-day average closing Price up to the Offer Document Latest Practicable Date	HK\$0.178	HK\$0.061	HK\$0.712: HK\$0.305	43%
Average closing price from 2 January 2018 up to the Offer Document Latest Practicable Date <i>(Note 1)</i>	HK\$0.221	HK\$0.082	HK\$0.884: HK\$0.41	46%
Audited net asset value per share <i>(Note 2)</i>	HK\$0.653	HK\$0.143	HK\$2.612: HK\$0.715	27%

Source: website of Stock Exchange

Notes:

- (1) “Average closing price” in respect of a specified number of days/period for a specified share, means the average closing price for that share as quoted on the Stock Exchange for the specified consecutive number of days/period prior to and including the last day specified or of the period specified.
- (2) “Audited NAV per share” in respect of a company, is the audited consolidated net assets per share attributable to the shareholders of that company as at 31 December 2017 as determined from its latest published audited financial statements divided by the number of shares of that company in issue as at the Offer Document Latest Practicable Date.

As set out in the table above, save for on the Last Trading Day, the share price value of 5 China Jicheng Shares has been below the share price value of 4 Shares on all other dates/periods. In particular, based on the average closing price from 2 January 2018 up to the Offer Document Latest Practicable Date, the average share price value of 5 China Jicheng Shares is approximately 46% of the value of 4 Shares. In addition, the net asset value of 5 China Jicheng Shares is also approximately 27% of the net asset value of 4 Shares. As such, the Independent Shareholders and the holders of the Options will be receiving equities with a substantially less asset backing if they were to accept the Partial Offer made to them. Given that the Independent Shareholders will be receiving less value in terms of both share price value and net asset value by accepting five China Jicheng Shares in exchange of every four Shares, we are of the view that the Exchange Ratio is not fair and reasonable.

(c) Trading liquidity

We have also analysed the liquidity of the Shares and the Ching Jicheng Shares. The following table sets out the daily average trading volume for each of the calendar months during the Review Period (“Average Volume”) and the percentage of the Average Volume to the existing issued share capital of the Company and China Jicheng respectively. Although there are differences between the two companies such as their businesses, number of shares and number of shareholders, we consider it is necessary to compare the trading volume of the two companies since the Partial Offer is a share exchange between them.

Month	The Company		China Jicheng	
	Average Volume	% of the Average Volume to the total number of shares (Note)	Average Volume	% of the Average Volume to the total number of shares (Note)
	Shares	%	China Jicheng Shares	%
2016				
November	7,942,466	0.26	1,625,682	0.04
December	8,280,382	0.27	847,323	0.02
2017				
January	7,901,895	0.26	598,831	0.02
February	7,653,626	0.25	1,094,417	0.03
March	4,983,673	0.16	758,641	0.02
April	14,222,838	0.46	397,897	0.01
May	18,991,505	0.62	1,026,589	0.03
June	15,340,726	0.50	105,157,659	2.78
July	33,848,308	1.10	28,189,548	0.74
August	37,425,370	1.21	2,048,284	0.05
September	71,377,542	2.31	1,816,048	0.05
October	8,627,783	0.28	68,472,934	1.81
November	59,528,529	1.93	83,094,289	2.19
December	37,720,048	1.22	22,837,528	0.60
2018				
January	18,832,204	0.61	9,827,947	0.26
February	4,541,307	0.15	5,111,514	0.14
March	5,610,887	0.18	2,481,432	0.07
April	10,501,590	0.34	2,047,161	0.05
May	9,998,574	0.32	2,832,714	0.07
June	3,902,094	0.13	2,251,554	0.06
July (up to the trading day immediately preceding the Latest Practicable Date)	2,236,379	0.07	2,600,944	0.07
Average	18,546,082	0.60	16,434,235	0.43

Source: website of Stock Exchange

Note: The percentage are calculated based on the daily average trading volume divided by the existing issued share capital of the Company of 3,086,372,734 Shares and China Jicheng of 3,786,000,000 China Jicheng Shares as at the Latest Practicable Date and the Offer Document Latest Practicable Date respectively.

As illustrated in the table above, trading in the Shares was more active than trading in the China Jicheng Shares during the Review Period. The Average Volume of the Shares during the Review Period was approximately 18,546,082 Shares, representing approximately 0.60% of the issued share capital of the Company, whilst the Average Volume of the China Jicheng Shares during the Review Period was approximately 16,434,235 China Jicheng Shares, representing approximately 0.43% of the issued share capital of the China Jicheng Shares. Further, we also noted that the trading liquidity of the Shares is higher than that of the China Jicheng Shares in 17 out of 21 calendar months during the Review Period. In particular, we noted that the Average Volume to the total number of the China Jicheng Shares as at the end of each calendar month was below 0.1% for 14 out of 21 calendar months during the Review Period, which implied that the trading in the China Jicheng Shares was rather thin. However, it should be noted that we consider that the overall liquidity of both the Shares and the China Jicheng Shares was low.

(d) Comparison with other comparable companies

To further assess the fairness and reasonableness of the Partial Offer, we have considered using price-to-earnings (the “P/E”) ratio analysis and price-to-book (the “P/B”) ratio analysis, which are the most commonly used benchmarks for valuation of companies. However, as the Company was loss making for the year ended 31 December 2017, the P/E ratio analysis is hence not applicable. Given that the revenue of the Group was mainly attributable by its financial services business, we have searched for non-H shares companies listed on the Main Board of the Stock Exchange which are engaged in similar lines of business as the Group for our comparison purpose, i.e., principally engaged in the provision of financial services in Hong Kong with approximately 40% or more of their revenue derived from securities brokerage, lending and margin, placing, underwriting and related businesses and with market capitalisation of not more than HK\$1 billion, which we considered to be similar in size to the Company (the “Comparable Companies”). In this regard, 7 Comparable Companies are identified based on our research on the website of the Stock Exchange in accordance with the above criteria which is exhaustive. Whilst the operations and prospects of the Comparable Companies are not the same as the Company, given that we have included all available Comparable Companies listed on the Stock Exchange based on our selection criteria (the Comparable Companies are mainly engaged in financial services sector in Hong Kong and thus are in general affected by similar factors, including, but not limited to, the outlook of the financial services industry and also that the sample size is sufficient in size with 7 Comparable Companies), we are of the view that the Comparable Companies serve as a reference in assessing the fairness and reasonableness of the Partial Offer and also that the list of Comparable Companies is fair, sufficient and representative sample.

Listed issuer (stock code)	Market capitalisation (HK\$ million) (Note 1)	Equity attributable to shareholders (HK\$ million)	P/B (times) (Note 2)
Cinda International Holdings Limited (111)	436.0	821.5	0.53
Sunwah Kingsway Capital Holdings Limited (188)	655.7	975.0	0.67
Styland Holdings Limited (211)	435.3	610.1	0.71
First Shanghai Investments Limited (227)	808.8	2,787.0	0.29
China Fortune Financial Group Limited (290)	899.9	375.8	2.39
CASH Financial Services Group Limited (510)	620.0	729.0	0.85
Pinestone Capital Limited (804)	800.3	274.3	2.92
Average			1.20
Maximum			2.92
Minimum			0.29
The Company	632.7 (Note 3)	2,009.3	0.31

Source: website of Stock Exchange

Notes:

1. Market capitalisation is based on the number of shares in issue multiplied by the closing share price on the day immediately preceding the Latest Practicable Date.
2. P/B ratio is calculated using the market capitalisation divided by the equity attributable to shareholders of the company as disclosed in the latest audited financial statements of the Comparable Companies and the Company. The equity attributable to shareholders of the company is the net assets of the company subtracting the equity attributable to the non-controlling interests of the company.
3. The market capitalisation of the Company is based on the number of Shares in issue as at the Latest Practicable Date multiplied by the Ascribed Value.

We have compared the P/B ratio of the Company as implied by the Ascribed Value, being the market capitalisation of the Company based on the Ascribed Value of

approximately HK\$632.7 million divided by the equity attributable to shareholders of the Company as disclosed in its latest audited financial statements of approximately HK\$2,009.3 million (the "Offer P/B"), with those of the Comparable Companies. As shown in the table above, the P/B ratio of the Comparable Companies is in the range of 0.29 times to 2.92 times with an average P/B ratio of approximately 1.20 times whilst the Offer P/B is approximately 0.31. Therefore, the Offer P/B of approximately 0.31 times is below the average P/B ratio of the Comparable Companies and is also at the lower end range of the P/B ratio of the Comparable Companies.

We have further attempted to search for proceeded share exchange offers in the last two years which involve Hong Kong listed companies engaging in similar line of business (i.e., financial services) as the Group. However, we are not able to identify such case and therefore we could not perform an appropriate comparable analysis with other share exchange offers.

(e) Our analysis and view on the Partial Offer

In light of the above and in particular that:

- (i) the Ascribed Value of HK\$0.205 per Share represents a discount of approximately 13.87% to the average closing price per Share during the Post LTD Period;
- (ii) the Ascribed Value of HK\$0.205 per Share represents a discount of approximately 68.61% to the audited consolidated net assets per Share as at 31 December 2017;
- (iii) the Implied Value of HK\$0.14 per China Jicheng Share represents a premium of approximately 62.79% over the average closing price of the China Jicheng Shares during the Post LTD Period;
- (iv) the closing prices of the China Jicheng Shares were rather volatile during the Review Period such as (a) the closing price of the China Jicheng Shares dropped approximately 94.29% on 27 June 2017 as compared with the closing price on the prior trading day; (b) the closing price of the China Jicheng Shares dropped approximately 37.50% during the period from 27 June 2017 to 3 July 2017; and (c) the closing price of the China Jicheng Shares further dropped approximately 66.67% during the Post LTD Period;
- (v) the closing prices of the China Jicheng Shares were in general in a decreasing trend during the Post LTD Period;
- (vi) based on the average closing price from 2 January 2018 up to the Offer Document Latest Practicable Date, the average share price value of 5 China Jicheng Shares is approximately 46% of the value of 4 Shares;

- (vii) the net asset value of 5 China Jicheng Shares is approximately 27% of the net asset value of 4 Shares;
- (viii) the generally lower liquidity of the China Jicheng Shares as compared with the Shares;
- (ix) the Average Volume in the trading of the China Jicheng Shares as at the end of each calendar month was below 0.1% for 14 out of 21 calendar months during the Review Period; and
- (x) the Offer Price P/B is below the average P/B ratio of the Comparable Companies and is also at the lower end range of the P/B ratio of the Comparable Companies,

we consider the Exchange Ratio and therefore the terms of the Partial Offer to be not fair and not reasonable so far as the Independent Shareholders are concerned.

7. The Option Offer

The Options are determined by the “see-through” principal, i.e. value representing the difference between the exercise price and the Ascribed Value which is normally adopted in Hong Kong for general offers of a similar nature. Given our view that the Partial Offer as set out above, we consider that the terms of the Option Offer are not fair and reasonable so far as the holders of the Options are concerned.

OPINIONS AND RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above and in particular that:

- (i) the revenue and profit of China Jicheng Group were decreasing and there is still no certainty as to whether China Jicheng Group will be able to improve on its revenue and profitability going forward at this stage;
- (ii) the sole director of the Offeror does not have any direct experience in the current principal businesses of the Group;
- (iii) the Ascribed Value represents a discount to the average closing price per Share during the Post LTD Period;
- (iv) the Ascribed Value represents a discount to the audited consolidated net assets per Share as at 31 December 2017;
- (v) the Implied Value represents a premium over the average closing price of the China Jicheng Shares during the Post LTD Period;
- (vi) the volatility of the closing prices of the China Jicheng Shares during the Review Period;

- (vii) the decreasing trend in the closing prices of the China Jicheng Shares during Post LTD Period;
- (viii) the average share price value of 5 China Jicheng Shares in the period from 2 January 2018 up to the Offer Document Latest Practicable Date was significantly below the average share price value of 4 Shares;
- (ix) the net asset value of 5 China Jicheng Shares is substantially lower than the net asset value of 4 Shares;
- (x) the generally lower trading liquidity of the China Jicheng Shares as compared with the Shares; and
- (xi) the Offer Price P/B is below the average P/B ratio of the Comparable Companies and is also at the very lower end range of the P/B ratio of the Comparable Companies,

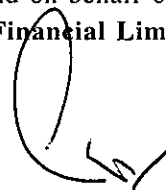
we consider that the terms of the Offers to be not fair and not reasonable. Accordingly, we recommend the Independent Board Committee to advise (i) the Independent Shareholders **NOT** to approve the Partial Offer; and (ii) the Independent Shareholders and the holders of the Options **NOT** to accept the Partial Offer and Option Offer respectively.

The Independent Shareholders and the holders of the Options should also note that the Offers are securities exchange partial offer and option offer which do not involve cash. The ascribed value of the Shares under the Partial Offer will change from time to time according to the fluctuations in the market price of the China Jicheng Shares during the Offer Period, and it is uncertain whether the market prices of the Shares and/or the China Jicheng Shares would rise or not and whether the ascribed value of the Shares under the Partial Offer would represent premium or discount over/to its market prices during and after the Offers. The Independent Shareholders and the holders of the Options, in particular those who intend to hold their interest as short-term investment, should monitor closely the trading of the Shares and the China Jicheng Shares during the Offer Period.

Pursuant to the 2013 Share Option Schemes, all Options that remain unexercised before the earlier of (i) the expiry of the option exercise period of the relevant Options, and (ii) the 14th day following the date on which the Partial Offer becomes or is declared unconditional, will lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the said period. As such, in the event that the Offers becomes unconditional and the Options are in-the-money during the period when the Offers remain open for acceptance, holders of the Options may also consider accepting the Option Offer or converting their outstanding Options into new Shares and if they wish to realise their investment, sell such new Shares in the market, if the net proceeds from the sale of Shares in the market after deducting the aggregate exercise price of the outstanding Options and all transaction costs are higher than the net amount receivable under the Option Offer.

As different Shareholders/holders of the Options would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders/holders of the Options who may require advice in relation to any aspect of the Response Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Pelican Financial Limited

A handwritten signature in black ink, appearing to be 'Charles Li', written over the company name.

Charles Li[^]
Director

[^] *Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and he has over 25 years of corporate finance experience. He has been licensed to carry out Type 6 regulated activity since the SFO became effective in 2003.*