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HC INTERNATIONAL, INC.
慧聰網有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 2280)

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF THE REMAINING EQUITY INTERESTS IN CHONGQING DIGITAL CHINA HUICONG MICRO-CREDIT CO., LTD. AND DIGITAL CHINA'S SUBSCRIPTION OF THE COMPANY'S NEW SHARES UNDER A SPECIFIC MANDATE

Financial adviser to the Company

第一上海 FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司

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

SOMERLEY CAPITAL LIMITED

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

A letter from the Board is set out on pages 5 to 16 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 17 to 18 of this circular. A letter from Somerley, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 59 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Tower B, Jingyi Technical Building, No. 9 Dazhongsi East Road, Haidian District, Beijing 100098, the People's Republic of China on Friday, 14 July 2017 at 4:00 p.m. or any adjournment thereof is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the meeting, you are advised to read the notice and complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, being not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

* *For identification purposes only*

27 June 2017

CONTENTS

In this circular, unless the context otherwise requires, the following words and expressions shall have the following meanings ascribed to them respectively:

"Acquisition"	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the Formal SPA
"Announcement"	announcement of the Company dated 19 May 2017 in relation to the Formal SPA and the transactions contemplated thereunder
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Chongqing Micro-Credit"	重慶神州數碼慧聰小額貸款有限公司 (Chongqing Digital China Huicong Micro-Credit Co., Ltd.*), a company established in the PRC with limited liability
"Company"	HC INTERNATIONAL, INC. (慧聰網有限公司*), a company incorporated in Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 02280)
"Completion"	the completion of the Acquisition and the Subscription, which may be performed in stages, pursuant to the Formal SPA
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration for the Acquisition is the RMB equivalent of HK$1,227,000,000 based on the Exchange Rate payable by the Purchaser pursuant to the Formal SPA
"control"	when the Company is exposed, or has rights, to variable returns from its involvement with Chongqing Micro-Credit and has the ability to affect those returns through its power over Chongqing Micro-Credit

"Digital China"	DIGITAL CHINA HOLDINGS LIMITED (神州數碼控股有限公司*), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 00861)
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting to be convened by the Company for the purpose of considering, and if thought fit, approving, the entering into of the Formal SPA and the transactions contemplated thereunder, including the allotment and issue of New Shares under the Specific Mandate
"Enlarged Group"	the Group as enlarged by the Acquisition
"Equity Transfer Agreement(s)"	the equity transfer agreement(s) to be executed between the Purchaser and the Vendor in respect of the Acquisition in one batch or in stages as required by PRC laws and regulations
"Exchange Rate"	RMB0.88316:HK$1.0, being the central parity rate of the exchange rate of RMB and HK$ as announced by the People's Bank of China on the date of the Framework Agreement
"Formal SPA"	the formal sale and purchase agreement entered into for the Acquisition and the Subscription dated 19 May 2017 entered into by the Vendor, Digital China, the Purchaser and the Company
"Framework Agreement"	the framework agreement made by Digital China and the Company on 24 April 2017 for the Acquisition and the Subscription
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Zhang Ke, Mr. Zhang Tim Tianwei, and Mr. Tang Jie, formed for the purpose of advising the Independent Shareholders in respect of the terms of the Formal SPA and the transactions contemplated thereunder
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Formal SPA and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders who are not interested or involved in the Formal SPA and the transactions contemplated thereunder
"Independent Third Party(ies)"	party(ies) independent of the Company and its connected persons
"Latest Practicable Date"	23 June 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"New Shares"	the new Shares to be allotted and issued by the Company to Digital China or its designated wholly-owned subsidiary pursuant to the Formal SPA
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administration Region of the People's Republic of China and Taiwan
"Purchaser"	北京慧聰互聯信息技術有限公司 (Beijing Huicong Internet Information Technology Co., Ltd*), a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of PRC

"Sale Shares"	60% equity interest in Chongqing Micro-Credit
"SFO"	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Specific Mandate"	the specific mandate to be granted by the Independent Shareholders at the EGM authorising the allotment and issue of New Shares under the Formal SPA
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	subscription of New Shares by Digital China or its designated wholly-owned subsidiary pursuant to the Formal SPA
"Vendor"	神州投資有限公司 (Digital China Investments Limited*), an indirect wholly-owned subsidiary of Digital China
"%"	per cent

* *The English names of Chinese entities marked with "*" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails*

HC INTERNATIONAL, INC.
慧聰網有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock code: 2280)

Executive Directors:
Mr. Guo Fansheng *(Chairman)*
Mr. Guo Jiang *(Chief Executive Officer)*
Mr. Lee Wee Ong *(Chief Financial Officer)*
Mr. Liu Jun

Non-executive Directors:
Mr. Li Jianguang
Mr. Wong Chi Keung

Independent non-executive Directors:
Mr. Zhang Ke
Mr. Zhang Tim Tianwei
Mr. Tang Jie

Registered Office:
4th Floor
One Capital Place
P.O. Box 847
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business:
Tower B
Jingyi Technical Building
No. 9 Dazhongsi East Road
Haidian District
Beijing 100098
The People's Republic of China

27 June 2017

To the Shareholders

Dear Sirs and Madams,

**MAJOR AND CONNECTED TRANSACTION:
ACQUISITION OF THE REMAINING EQUITY INTERESTS IN
CHONGQING DIGITAL CHINA HUICONG MICRO-CREDIT CO., LTD.
AND
DIGITAL CHINA'S SUBSCRIPTION OF THE COMPANY'S
NEW SHARES UNDER A SPECIFIC MANDATE**

INTRODUCTION

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

* *For identification purposes only*

On 19 May 2017 (after trading hours), the Purchaser, the Vendor, Digital China, and the Company entered into the Formal SPA as contemplated under the Framework Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Shares for a consideration of RMB1,083,637,320 (equivalent to HK$1,227,000,000 based on the Exchange Rate), which will be settled by the Purchaser in cash within six months after the execution of the first Equity Transfer Agreement. Digital China has undertaken that upon the Purchaser transferring any part of the Consideration to the Vendor in the PRC, Digital China will within ten business days pay a sum equal to the said part of the Consideration to the Company in Hong Kong to subscribe for New Shares at the issue price of HK$7.0 per Share. Upon the Purchaser paying the whole Consideration, a total of 175,285,714 New Shares shall have been subscribed by Digital China or its designated wholly-owned subsidiary.

The purposes of this circular are to provide you with, among other things, (i) further details of the Formal SPA, and the transactions contemplated thereunder; (ii) other information as required to be disclosed under the Listing Rules; and (iii) a notice of the EGM.

THE FORMAL SPA

The principal terms of the Formal SPA are as follows:

Date: 19 May 2017 (after trading hours)

Parties: The Company as the issuer;
Digital China as the subscriber;
the Purchaser as the purchaser; and
the Vendor as the vendor.
(all four parties together as the "**Parties**", each of the four as a "**Party**")

Interest to be acquired

Pursuant to the Formal SPA, the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Shares. The Sale Shares will be transferred to the Purchaser in one batch or in stages proportionate to the portion of the Consideration paid. Resulting from such transfer(s), Chongqing Micro-Credit would become a subsidiary of the Company upon the Purchaser obtaining control through the acquisition(s) the Sale Shares in one batch or in stages. Upon completion of the transfer of the entire Sale Shares, Chongqing Micro-Credit will become an indirect wholly-owned subsidiary of the Company.

Consideration

The Consideration for the Acquisition is RMB1,083,637,320 (equivalent to HK$1,227,000,000 based on the Exchange Rate), which shall be financed by internal resources and/or bank loans of the Group.

The Consideration is to be settled in one batch or in stages by the Purchaser in cash within six months after the execution of the first Equity Transfer Agreement. Pursuant to the Formal SPA, the first Equity Transfer Agreement shall be entered into within 90 days from the date of the Formal SPA and the Purchaser would not have any obligations to settle the Consideration unless the conditions precedent contained in the Formal SPA and the Equity Transfer Agreement(s) are fulfilled or waived (as the case may be). Pursuant to the Equity Transfer Agreement, settlement of the Consideration concerned in each stage shall occur within three months following the fulfillment (or waiver) of the conditions precedent contained therein. Digital China has undertaken that upon the Purchaser transferring any part of the Consideration to the Vendor in the PRC, Digital China will within 10 business days pay a sum equal to the said part of the Consideration in HK$ to the Company in Hong Kong to subscribe for New Shares at the issue price of HK$7.0 per Share. Upon the Purchaser paying the whole Consideration, a total of 175,285,714 News Shares shall have been subscribed by Digital China or its designated wholly-owned subsidiary. As at the Latest Practicable Date, the Company intends to settle the consideration for 50% of the Sales Shares of approximately RMB542 million in or around August 2017 and the consideration for the remaining 50% of the Sales Shares by the end of 2017. It is expected that (i) the consideration for the first 50% of the Sales Shares will be financed as to approximately RMB220 million by internal resources of the Group and the rest by bank loans; and (ii) the entire consideration for the remaining 50% of the Sales Shares will be financed by bank loan(s) using the subscription money for the New Shares to be received from Digital China corresponding to the first 50% of the Sales Shares as a security.

The Consideration was arrived at after arm's length negotiations between the Company and Digital China. In determining the Consideration, the Directors (except for the members of the Independent Board Committee) considered, among other factors, (i) the growth potential and prospect of Chongqing Micro-Credit and its business operation; and (ii) the valuation of the Sale Shares based on the valuation report issued by Access Partner Consultancy & Appraisals Limited.

Taking into account (i) the letter from Somerley; (ii) the net assets value of Chongqing Micro-Credit of approximately RMB1,100.2 million as at 31 December 2016 as reflected in the Accountant's Report of Chongqing Micro-Credit (see Appendix II); (iii) the valuation report of the Sales Shares (see Appendix V) and (iv) the prospect as elaborated in the section headed "Reasons for and Benefits of the Acquisition", the Independent Board Committee considers that the Consideration is fair and reasonable and on normal commercial terms or better and the entering into of the Formal SPA is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon the following conditions being satisfied or waived in accordance with the Formal SPA:

1. having obtained, as the Company is a company listing on the Main Board of the Stock Exchange, all necessary approvals, authorisations, consents and permits (including but not limited to the unconditional approval for the listing of, and permission to deal in, the New Shares from the Listing Committee of the Stock Exchange and such approvals, authorisations, consents, and permits have not been revoked or withdrawn);

2. the Company having obtained, where applicable, in accordance with the Listing Rules, Cayman Islands' company law, the articles of association of the Company, and other legal requirements, in its Board meeting and the EGM the approval for (i) the Company's execution and performance of its obligation under the Formal SPA, (ii) the Purchaser purchasing the Sale Shares at the Consideration from the Vendor, and (iii) the Board to issue New Shares under the Specific Mandate (only applicable for EGM);

3. the Subscriber having obtained, in accordance with the Listing Rules, its articles of association and/or applicable laws and regulations, in its board meeting the approval for its execution and performance of its obligation under the Formal SPA;

4. having obtained the consents, authorisations, permits, approvals and any other form of consents, authorisations and approvals that may be necessary pursuant to any existing contractual arrangements of Chongqing Micro-Credit and/or its subsidiary(ies) and/or any parties to the Formal SPA for the completion of the all the transactions contemplated in the Formal SPA;

5. Chongqing Micro-Credit and/or its subsidiary(ies) and/or any parties to the Formal SPA, for the completion of the all the transactions contemplated in the Formal SPA, having obtained all necessary consents, authorisations, permits or approval from governmental departments and/or regulatory institutions (including but not limited to the approval of 重慶市人民政府金融工作辦公室 (Chongqing Municipal People's Government Financial Affairs Office*) approving the change of equity holdings caused by the transfer(s) of the Sale Shares) as required under any laws, the Listing Rules or other applicable regulations; and

6. the warranties remaining true, accurate and not misleading at each stage of transfer of the Sale Share(s) and subscription of the New Share(s) in all respects until completion of the transfer of the entire Sale Shares and full Subscription as if the warranties were repeatedly made during the period from the date of the Formal SPA to the completion of the transfer of the entire Sale Shares and full Subscription.

As at the Latest Practicable Date, only the abovementioned condition 4 has been fulfilled.

Equity Transfer Agreement(s)

The Purchaser and the Vendor shall enter into Equity Transfer Agreement(s) with regard to each batch of the transfer of the Sale Shares. The Equity Transfer Agreement(s) will be governed by the PRC law and is/are needed as a matter of procedural formality for the registration in the PRC corresponding and incidental to each batch of the transfer of the Sale Shares.

The number of the Sales Shares, amount and timeline of the consideration to be paid for that batch of the Sales Shares will be set out in the relevant Equity Transfer Agreement(s). Completion of the transfer of the Sales Shares concerned under the Equity Transfer Agreement(s) will be conditional upon the following conditions being satisfied or waived in accordance with the Equity Transfer Agreement(s):

1. due execution and effect of the Equity Transfer Agreement(s);

2. the representations and warranties made by the Purchaser and the Vendor in of the Equity Transfer Agreement(s) remaining true, accurate and complete on the signing date of the Equity Transfer Agreement(s) and the completion date of the transactions contemplated therein;

3. Digital China not materially breaching its representations made and warranties given in the Equity Transfer Agreement(s);

4. the Purchaser and Vendor having obtained the necessary internal approval for the transfer of Sale Shares concerned and the signatories of the Equity Transfer Agreement(s) being duly authorized to sign;

5. the Purchaser and the Vendor, having obtained all the necessary authorisations, consents, and internal and external approvals for Deed of Undertaking and the transfer of Sale Shares, including but not limited to the necessary internal approval for the transfer of the Sale Shares and change of personnel, shareholders' approval of the Company in EGM and the approval of 重慶市人民政府金融工作辦公室 (Chongqing Municipal People's Government Financial Affairs Office*) approving transfer of Sale Shares;

6. the articles of associates of Chongqing Micro-Credit which are amended in accordance with the Formal SPA and Equity Transfer Agreement to the satisfaction of the Company being approved by the board of directors of Chongqing Micro-Credit;

7. the Purchaser and the Vendor signing a new shareholders agreement;

8. the Vendor sending notice to remove the directors of Chongqing Micro-Credit nominated by it and the Purchaser sending notice to appoint the directors of Chongqing Micro-Credit nominated by it;

9. the board of directors of Chongqing Micro-Credit resolving to remove the directors, financial officer and other senior officials appointed by the Vendor and appoint the directors and financial officer nominated by the Purchaser;

10. the Company waiving the pre-emptive right to purchase the Sale Shares in writing;

11. the Company having obtained all necessary approvals, authorizations, consents and permits (including but not limited to the unconditional approval

for the listing of, and permission to deal in, the new Shares from the Listing Committee of the Stock Exchange and such approvals, authorizations, consents and permits have not been revoked or withdrawn); and

12. the Vendor handing over to the Purchaser all documents needed to register the transfer of Sale Shares in mainland China and evidence showing the Vendor has fulfilled the conditions precedent related to the Vendor under the Equity Transfer Agreement.

Completion and Termination

The Formal SPA will lapse if (i) the completion of the first stage of the Acquisition and the corresponding Subscription does not take place on or before 31 December 2017; or (ii) the completion of the Acquisition and the Subscription does not take place on or before the first anniversary of the date of the Formal SPA. However, the Sale Share(s) already acquired by the Purchaser and the New Share(s) already subscribed by Digital China before the lapse of the Formal SPA will not be affected by the abovementioned lapse.

In the event that the registration procedures under the PRC regulations in respect of the transfer of the relevant Sale Shares are not completed within 30 days after the Purchaser has paid the relevant Consideration, the Purchaser will be entitled to: (i) request the Vendor to use its best endeavor to complete the registration procedures as soon as possible; or (ii) terminate the Formal SPA in which case the Vendor shall refund the relevant Consideration paid by the Purchaser together with the deposit interest accrued thereon to the Purchaser.

Deed of Undertaking

The Company shall on the same date of the date of the first Equity Transfer Agreement execute a deed to indemnify Digital China, on a pro rata basis according to the proportion of the Sale Shares having been transferred by the Vendor to the Purchaser at the material time, repay or assume Digital China's payment obligation to Huatai Securities (Shanghai) Asset Management Co., Ltd.* (華泰證券(上海)資產管理有限公司) under a commitment letter executed by Digital China on 23 December 2016. Pursuant to such commitment letter, Digital China undertook that if Chongqing Micro-credit fails to perform its obligation to fully redeem any disqualified underlying assets of the asset-backed securities issued by Chongqing Micro-credit pursuant to the Huicong Asset-backed Special Project Phase I (慧聰一期資產支持專項計劃), Digital China shall finance 60% of the part that Chongqing Micro-credit fails to perform its obligation. The maximum amount undertaken by Digital China under the said commitment letter was RMB174 million.

Pursuant to the Huicong Asset-backed Special Project Phase I (慧聰一期資產支持專項計劃), Changqing Micro-credit has issued asset-backed securities with a principal amount of RMB290 million to qualified investors in the PRC that are backed by the loan assets of Chongqing Micro-Credit and Huatai Securities (Shanghai) Asset Management Co., Ltd. (華泰證券(上海)資產管理有限公司) was the administrator of the project.

The Issue Price and the New Shares

The issue price of HK$7.0 per New Share represents:

1. a premium of approximately 4.48% to the closing price of HK$6.70 per Share as quoted on the Stock Exchange on the date of the Formal SPA;

2. a premium of approximately 19.05% to the closing price of HK$5.88 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

3. a premium of approximately 23.89% to the average closing price of approximately HK$5.65 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Latest Practicable Date; and

4. a premium of approximately 22.59% to the average closing price of approximately HK$5.71 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Latest Practicable Date.

Such issue price was determined after arm's length negotiation between the Company and Digital China with reference to, among other things, the market price of the Shares. The Directors consider the issue price fair and reasonable and in the interest of the Company and the Shareholders as a whole. As the total funds to be raised by the Company from the Subscription will amount to HK$1,227,000,000 and will be equal to the Hong Kong dollar equivalent of the Consideration to be paid by the Purchaser to the Vendor for the Acquisition based on the Exchange Rate, there would not be any significant net proceeds raised by the Group.

Assuming the entire Sale Shares are acquired by the Purchaser, the total number of the New Shares to be issued at the abovementioned issue price represent approximately:

(i) 17.49% of the total number of issued Shares of the Company as at the Latest Practicable Date; and

(ii) 14.89% of the total number of issued Shares of the Company as enlarged by the allotment and issue of the New Shares in full (assuming there will be no change in the total number of issued Shares of the Company between the Latest Practicable Date and the issue of the New Shares).

The New Shares will be issued and allotted pursuant to the Specific Mandate proposed to be sought from you, the Independent Shareholders, at the EGM. The New Shares, when issued, allotted and fully paid, will rank pari passu in all respects among themselves and with the Shares in issue on the date of issue and allotment of the New Shares. The aggregate nominal value of the New Shares is HK$17,528,571.4.

An application will be made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the New Shares.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structures of the Company (i) as at the Latest Practicable Date, and (ii) upon issuance and allotment of the New Shares in full, assuming there is no other change in the shareholding structure of the Company since the Latest Practicable Date, are as follows:

	As at the Latest Practicable Date		**Immediately upon the allotment and issue of the New Shares in full**	
	Number of Shares	*Approximate % of shareholding*	*Number of Shares*	*Approximate % of shareholding*
Directors and their associate(s):				
Guo Jiang and his spouse	127,908,771	12.76%	127,908,771	10.86%
Guo Fansheng *(Note 1)*	57,749,015	5.76%	57,749,015	4.91%
Liu Jun	40,000,000	3.99%	40,000,000	3.40%
Li Jianguang *(Note 2)*	32,000,384	3.19%	32,000,384	2.72%
Lee Wee Ong	18,350,672	1.83%	18,350,672	1.56%
Substantial Shareholders:				
Digital China and its associates *(Note 3)*	166,029,107	16.57%	341,314,821	28.99%
Public Shareholding	560,012,904	55.89%	560,012,904	47.57%
Total	1,002,050,853	100.00%	1,177,336,567	100.00%

Notes:

1. Such interest in the Company comprises: (a) 35,000,000 Shares held by Mr. Guo Fansheng; and (b) 22,749,015 Shares held by a trustee of a trust of which Mr. Guo Fansheng is a beneficiary.

2. Holding through Callister Trading Limited, a company wholly owned by Mr. Li Jianguang.

3. Holding through Talent Gain Developments Limited and Unique Golden Limited. Unique Golden Limited is wholly and beneficially owned by Talent Gain Developments Limited, which in turn is wholly and beneficially owned by Digital China (BVI) Limited and indirectly wholly and beneficially owned by Digital China.

INFORMATION ON CHONGQING MICRO-CREDIT

Chongqing Micro-Credit is a company established in the PRC and is indirectly owned as to 40% by the Company and 60% by Digital China through their respective wholly-owned subsidiaries. Chongqing Micro-Credit is principally engaged in development and operation of the micro-credit internet financing business in the PRC and development of micro-finance products such as trade finance, personal credit and guaranteed loan.

Set out below is the financial information of Chongqing Micro-Credit for the period from 13 May 2014 (being the date of establishment) to 31 December 2014 and the years ended 31 December 2015 and 31 December 2016:

	Period from 13 May 2014 (date of establishment) to 31 December 2014 (audited)	**Year ended 31 December 2015 (audited)**	**Year ended 31 December 2016 (audited)**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	2,713	38,484	92,508
Profit after tax	2,049	28,817	69,311

	As at 31 December 2014 (audited)	**As at 31 December 2015 (audited)**	**As at 31 December 2016 (audited)**
	RMB'000	*RMB'000*	*RMB'000*
Net assets	677,049	1,030,866	1,100,177

INFORMATION ON DIGITAL CHINA AND THE VENDOR

Digital China is principally engaged in businesses commanding high added value and growth potential such as Internet urban services, Internet agriculture, Internet healthcare, Internet manufacturing, Internet taxation, Internet logistics and related Internet financial services, developed on the basis of its core Sm@rt City operations through the provision of IT services and operations in combination with various industry applications, leveraging its technological expertise in the Internet, Cloud Computing and Big Data. The Vendor is an indirect wholly-owned subsidiary of Digital China. The Vendor is an investment vehicle of Digital China in the PRC. The principal business of the Vendor is investment and investment management business in various industries including the high-tech industry, covering Sm@rt City business, financial services business, supply chain services business, private equity funds and medium and small enterprises in high-tech industry and, as at the Latest Practicable Date, holds the Sale Shares, being 60% equity interest in Chongqing Micro-Credit.

FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any fundraising activities in the past twelve months before the Latest Practicable Date.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Currently, the Group has six business segments, namely: (i) on-line services, (ii) trade catalogues and yellow page directories, (iii) seminars and other services, (iv) online to offline (O2O) business exhibition centre, (v) anti-counterfeiting products and services, and (vi) financing services. The Purchaser is an indirect wholly-owned subsidiary of the Company and is principally engaged in providing business information through both online and offline channels.

Currently the Group is building up, with great effort, the business-to-business (B2B) ecosystem with the financial service cluster as a major constituent. As Chongqing Micro-Credit is conducting its business throughout the PRC, the acquisition of the remaining equity interest of Chongqing Micro-Credit pursuant to the Formal SPA will enhance the development and expansion potential of the Group's financial service cluster by providing more comprehensive services to small and medium size corporate customers in respects of supply chain and transaction funds etc. The Company will benefit from the enhanced financial service cluster as the smoothness and inclusiveness of the transactions handled through the Group will be strengthened by it. In respect of financial performance, the Acquisition, if completed, will bring positive influence to the Group's financial results.

On the above basis, the Board is of the view that the terms of the Formal SPA and the Acquisition are on normal commercial terms or better, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Digital China is a substantial Shareholder, holding approximately 16.57% of the total issued shares of the Company. Digital China is thus a connected person of the Company. The Acquisition and the Subscription therefore constitute connected transactions of the Company which are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Formal SPA are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Independent Shareholders as a whole. The Company has appointed Somerley as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed(s) 25% but is/are less than 100%, the Acquisition constitutes a major transaction of the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The New Shares will be issued under the Specific Mandate subject to the approval by the Independent Shareholders.

FINANCIAL IMPACT OF THE PROPOSED ACQUISITION TO THE GROUP

Upon the Purchaser obtaining control through the acquisition(s) of the Sale Shares in one batch or in stages, Chongqing Micro-Credit would become an indirectly-owned subsidiary of the Company. Upon completion of the acquisition of the entire Sale Shares, Chongqing Micro-Credit will become an indirect wholly-owned subsidiary of the Company and the financial results (including the financial performance and financial position) of Chongqing Micro-Credit will be consolidated into the Group's financial statements. In respect of financial performance, once control is obtained, the Enlarged Group will consolidate the income and expenses of Chongqing Micro-Credit as well as additional amortisation expenses of the intangible assets acquired and impairment of goodwill, if any, in accordance with the Group's accounting policies. For information purpose only, as set out in the accountant's report of Chongqing Micro-Credit in Appendix II to this circular, Chongqing Micro-Credit recorded consolidated net profit attributable to shareholders of approximately RMB69.3 million for the year ended 31 December 2016. In respect of financial position, the accompanying unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular is prepared as if the Acquisition had taken place on 31 December 2016 to illustrate the effect of the Acquisition.

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular, assuming that the Acquisition had been completed on 31 December 2016, on a pro forma basis:

1. the total assets of the Group would have increased from approximately RMB6,252.4 million to approximately RMB8,192.1 million;

2. the total liabilities of the Group would have increased from approximately RMB2,984.3 million to approximately RMB3,696.9 million; and

3. the net assets of the Group would have increased from approximately RMB3,268.1 million to approximately RMB4,495.2 million.

Further details of the financial effect of the Acquisition together with the bases in preparing the unaudited pro forma financial information are set out in Appendix IV to this circular.

EGM

An EGM will be held for the Independent Shareholders to consider, and if thought fit, approve the Formal SPA and the transactions contemplated thereunder and the Specific Mandate. The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Formal SPA and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Formal SPA and the transactions contemplated thereunder.

No Director is considered to be interested in the transactions contemplated under the Formal SPA and has to be abstained from voting at the Board resolutions approving the Formal SPA and the transactions contemplated thereunder. As at the Latest Practicable Date, Digital China and its associates held, and controlled the voting rights in, 166,029,107 Shares, representing 16.57% of the issued share capital of the Company. As Digital China is a party to the Formal SPA, Digital China and its associates will be required to abstain from voting at the EGM in respect of the Formal SPA and the transactions contemplated thereunder and the Specific Mandate.

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. The voting in relation to the Formal SPA and the Specific Mandate at the EGM will be conducted by poll whereby any Shareholders and their close associates (as defined under the GEM Listing Rules) who have a material interest in the Acquisition shall abstain from voting on the resolution in relation to the Formal SPA and the Specific Mandate to be proposed at the EGM.

You will find the enclosed proxy form for use at the EGM. Whether or not you are able to attend the EGM, 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 appointed for holding the EGM or any adjournment thereof to the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, being not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

Shareholders and potential investors should note that Completion is subject to the satisfaction or waiver of various conditions as stated in the section headed ''Conditions precedent'' of this circular. Shareholders and potential investors are therefore urged to exercise caution when dealing in the Shares.

RECOMMENDATION

The Directors believe that the terms of the Formal SPA (including the allotment and issue of the New Shares under the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders vote in favour of the resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

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

By order of the Board of
HC International, Inc.
Guo Jiang
Chief Executive Officer and Executive Director

HC INTERNATIONAL, INC.
慧聰網有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock code: 2280)

27 June 2017

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF THE REMAINING EQUITY INTERESTS IN CHONGQING DIGITAL CHINA HUICONG MICRO-CREDIT CO., LTD. AND DIGITAL CHINA'S SUBSCRIPTION OF THE COMPANY'S NEW SHARES UNDER A SPECIFIC MANDATE

We refer to the circular of the Company dated 27 June 2017 (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter shall bear the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider whether the terms of the Formal SPA are fair and reasonable, whether the Formal SPA (including the allotment and issue of the New Shares under the Specific Mandate) are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of Somerley. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the Letter from the Board, as set out on pages 5 to 16 of the Circular, and the letter from Somerley to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of whether the terms of the Formal SPA (including the allotment and issue of the New Shares under the Specific Mandate) are fair and reasonable, whether the Acquisition and the Subscription are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and how the Independent Shareholders should vote as set out on pages 19 to 59 of the Circular.

* *For identification purposes only*

Having taken into account the reasons relating to the Acquisition and the Subscription and the terms of the Formal SPA and the advice of Somerley, we consider that the Formal SPA (including the allotment and issue of the New Shares under the Specific Mandate) are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Formal SPA (including the allotment and issue of the New Shares under the Specific Mandate) and the transactions contemplated thereunder.

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

Mr. Zhang Ke	**Mr. Zhang Tim Tianwei**	**Mr. Tang Jie**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

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

27 June 2017

To: The Independent Board Committee and the Independent Shareholders of HC International, Inc.

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF THE REMAINING EQUITY INTERESTS IN CHONGQING DIGITAL CHINA HUICONG MICRO-CREDIT CO., LTD. AND DIGITAL CHINA'S SUBSCRIPTION OF THE COMPANY'S NEW SHARES UNDER A SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Formal SPA and the transactions contemplated thereunder. Details of the Formal SPA and the transactions contemplated thereunder (including the Specific Mandate) are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 27 June 2017 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 19 May 2017 (after trading hours), the Purchaser, the Vendor, Digital China and the Company entered into the Formal SPA as contemplated under the Framework Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Shares (being the 60% equity interest in Chongqing Micro-Credit) for a consideration of approximately RMB1,083.6 million (equivalent to HK$1,227.0 million based on the Exchange Rate), which will be settled by the Purchaser in cash within six months after the execution of the first Equity Transfer Agreement. In addition, Digital China has undertaken that upon the Purchaser transferring any part of the Consideration to the Vendor in the PRC, Digital China will within ten business days pay a sum equal to the said part of the Consideration to the Company in Hong Kong to subscribe for the New Shares at the issue price of HK$7.0 per Share (the "**Issue Price**"). Upon the Purchaser paying the whole Consideration, a total of 175,285,714 New Shares shall be subscribed by Digital China or its designated wholly-owned subsidiary.

Digital China, a substantial shareholder and connected person of the Company, together with its associates held, and controlled the voting rights in, 166,029,107 Shares, representing approximately 16.57% of the total issued shares of the Company as at the Latest Practicable Date. The Acquisition and the Subscription therefore constitute connected transactions for the Company under Chapter 14A of the Listing Rules. In addition, as one or more of the applicable percentage ratios in respect of the Acquisition exceeds 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

The Acquisition and the Subscription will be subject to the notification, reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. As Digital China is a party to the Formal SPA, Digital China and its associates will be required under the Listing Rules to abstain from voting at the EGM on the relevant resolutions in relation thereto.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Zhang Ke, Mr. Zhang Tim Tianwei and Mr. Tang Jie, has been established to advise and make recommendations to the Independent Shareholders on the Acquisition, the Subscription, the terms of the Formal SPA and the transactions contemplated thereunder and the Specific Mandate. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, the Purchaser, the Vendor, Chongqing Micro-Credit, Digital China or any of their respective close associates, associates or core connected persons (all as defined in the Listing Rules) and accordingly we are considered eligible to give independent advice on the Acquisition, the Subscription and the terms of the Formal SPA. 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, the Purchaser, the Vendor, Chongqing Micro-Credit, Digital China or their respective close associates, associates or core connected persons.

In formulating our opinion and recommendation, we have reviewed, among other things, the Formal SPA, the draft Equity Transfer Agreement, the Framework Agreement, the annual reports of the Company for the two years ended 31 December 2016 (the "**2016 Annual Report**") and 2015 (the "**2015 Annual Report**"), the business valuation report (the "**Valuation Report**") issued by Access Partner Consultancy & Appraisals Limited ("**Access Partner**"), the independent valuer, in relation to the business valuation of the Sale Shares as at 31 March 2017 (the "**Valuation**") set out in Appendix V to the Circular, the accountants' report of Chongqing Micro-Credit set out in Appendix II to the Circular, the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, the Announcement and the information contained in the Circular. We have also discussed with the management of the Group about Chongqing Micro-Credit and the future prospects of the Enlarged Group. We have also interviewed and discussed with Access Partner regarding the Valuation.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or Chongqing Micro-Credit.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Business of the Group

The Company was listed on the GEM of the Stock Exchange (stock code: 2280) in 2003 and transferred its listing to the Main Board of the Stock Exchange in 2014. Over the years, the Company has successfully transformed from being a traditional media company to an online business-to-business ("**B2B**") company and explored its most appropriate development path through transitions. The Company is principally engaged in organising an online B2B community across the PRC by providing business information through both online and offline channels. The Company recognised itself as one of the leading domestic B2B e-commerce operators in the PRC, covering more than 100 cities nationwide.

As disclosed in the 2016 Annual Report, the Group has currently six business segments, namely: (i) online services (the "**Online Services**"); (ii) trade catalogues and yellow page directories; (iii) seminars and other services; (iv) online-to-offline ("**O2O**") business exhibition centre ("**O2O Business**"); (v) anti-counterfeiting products and services; and (vi) financial services.

Set out below is a brief discussion on the Company's key operating segments:

Online Services

The Group provides internet services mainly through the platform of "www.hc360.com" and its mobile end application, on which business information is collected and disseminated with an aim to facilitate the location and matching of buyers and sellers. One of the principal B2B products of the Group is Mai-Mai-Tong (買賣通), which offers free subscription membership and fee-paying membership (with subscription fee varying based on the packaged services attached) for establishing online store on the online platform. During 2016, the management of the Group has gone through a series of reforms on the online trading platform. Through Mai-Mai-Tong, the Group offers a wide range of value-added service including, among others, (i) mobile end services; (ii) transaction matching services;

(iii) Xun-Pan-Bao services (詢盤寶), a value-added services for cost-effectiveness product searching engine; (iv) entrusted operation services; (v) Liu-Liang-Bao (流量寶), an advertising service provider for the online platform; and (vi) search engine ranking and position service. With the active reform of the trading platform, the Group achieved approximately RMB41.6 billion in gross merchandise volume ("**GMV**"), representing an increase of approximately 640.0% compared with the GMV achieved in 2015 of approximately RMB5.6 billion.

In June 2015, the Group acquired Orange Triangle Inc., which primarily engaged in the operation of ZoL.com.cn (中關村在線). The acquisition of Orange Triangle Inc. was completed in July 2015 and expanded the Group's service scope of IT consumer products to 70% coverage of tech-sensitive user in the PRC, further opening the information and advertising channels for IT consumer product producer, capillary retailers and end-consumers.

In January 2016, the Group also completed the acquisition of Zhongfu Holdings Limited, which primarily engaged in the operation of efu.com.cn (浙江中服). The acquisition of Zhongfu Holdings Limited expanded the service scope of consumer product of clothing industry to distribution of product and brand advertisements for large-scale distributer, capillary retailers shops and end customers and opened up the business-to-business-to-customer via online and offline promotion activities.

O2O Business

This segment relates to sales of properties and provision of property rental and management services. In March 2016, the business exhibition center of the Group related to small household electrical appliances was officially completed and commenced operation. According to the management of the Group, the business exhibition center was the first domestic O2O mall of B2B nature, being the platform of more than 700 enterprises of small household electrical appliances to trade with large distributors of small household electrical appliances local and abroad. The O2O business exhibition center has promoted B2B trade of small household electrical appliances and provide additional office space to the Group. Certain portion of the properties of the O2O business exhibition centre was made available for sale which contributed to the Group's revenue.

Financial services

The financial services segment is mainly represented by Chongqing Micro-Credit, which provides micro-loan products to small and medium-sized enterprises (the "**SMEs**"). Chongqing Micro-Credit is a joint venture company established by the Group and Digital China in September 2014, through this platform, customers are assisted by single or a combination of finance solutions such as trade finance, personal credit and guaranteed loans. The Group also has other entities that provide finance lease solutions to customers.

Though currently a relative small contributor to the Group's revenue and results, the financial services segment has a rising prominence in the Group. The Group is building up, with great effort, the B2B ecosystem with the financial services segment as a major constituent. It was also mentioned in the 2016 Annual Report, in 2017, under the strategy of trade and finance, that the Group's financial products are expected to act as "lubricant" so as to help customers to complete B2B transactions while bring better prospect in future profits for the Group.

Also under the financial services segment, the Group also has an approximately 9.72% shareholding in Inner Mongolia Hohhot Jingu Rural Commercial Bank Limited Company ("**Jingu Bank**"), a commercial bank based in Inner Mongolia.

2. Recent financial results of the Group

The following is a summary of the results of the Group for each of the two years ended 31 December 2015 and 2016:

	For the year ended 31 December			
	2016		2015	
	(RMB million)		*(RMB million)*	
	Revenue	Segment results	Revenue	Segment results
Online Services	949.3	64.9	733.3	87.7
O2O Business	842.1	226.3	–	(50.0)
Others	166.9	(8.4)	182.8	(12.7)
	1,958.3	282.8	916.1	25.0
Profit before tax		393.5		33.3
Profit for the year		300.7		23.1
Profit for the year attributable to the Shareholders		181.8		52.6

Revenue of the Group increased significantly by approximately 113.8% from approximately RMB916.1 million in 2015 to approximately RMB1,958.3 million in 2016. The increase was mainly attributable to the sale of properties of the O2O business exhibition center as mentioned above. The O2O Business contributed approximately RMB842.1 million in revenue to the Group. Also, the increase in revenue of the Group was also attributable to the increase in revenue from the Online Services, raising by approximately 29.5% from approximately RMB733.3 million in 2015 to approximately RMB949.3 million in 2016. The increase in revenue contributed by the Online Services was mainly attributable to the reformation in the internet technology service during 2016 as mentioned above.

Despite the increase in revenue recorded in 2016 compared with 2015, the gross profit margin achieved by the Group decreased from approximately 89.6% to approximately 63.9%. The decrease in gross profit margin was mainly due to the lower gross profit margin contributed by the O2O Business segment.

Following the increase in revenue during 2016, the operating expense of the Group increased from approximately RMB795.6 million in 2015 to approximately RMB969.3 million in 2016, representing an increase of approximately 21.8%. The increase in operating expense was mainly due to the increase in staff salaries and marketing expense following the reformation of its internet technology service platform, the introduction of the O2O Business and the amortisation cost of intangible assets acquired in prior years.

Set out below are is the summary of statement of financial position of the Group as at 31 December 2016 and 31 December 2015:

	As at 31 December	
	2016	**2015**
	(RMB million)	*(RMB million)*
Non-current assets		
Intangible assets	1,521.6	1,461.7
Investment properties	660.3	510.6
Investments accounted for using equity method	579.0	518.7
Other non-current assets	1,013.1	1,010.3
	3,774.0	3,501.3
Current Assets		
Properties under development	–	670.7
Completed properties held for sale	364.6	–
Finance leases receivables	352.3	68.8
Deposits, prepayments and other receivables	172.7	435.4
Other current assets	625.3	220.2
Cash and cash equivalents	963.5	790.7
	2,478.4	2,185.8
Current liabilities		
Bank and other borrowings	733.9	480.7
Issued convertible bonds	654.7	–
Receipt in advance	453.5	1,088.9
Other current liabilities	595.0	475.0
	2,437.1	2,044.6
Non-current liabilities		
Issued convertible bonds	–	600.2
Bank and other borrowings	149.6	46.6
Other non-current liabilities	397.5	396.7
	547.1	1,043.5
Equity attributable to the Shareholders	2,988.8	2,466.9

As at 31 December 2016, total assets of the Group were approximately RMB6,252.4 million, representing an increase of approximately 9.9% from that as at 31 December 2015. The Group has a significant portion, approximately 24.3%, of its total assets as at 31 December 2016 represented by intangible assets, which were mainly attributable to the goodwill arising from the acquisitions of subsidiaries in 2015 and 2016. Another portion of the total assets was attributed to the investment properties, mainly represented the O2O business exhibition center in Shunde in the O2O Business segment.

Net asset value ("**NAV**") attributable to the Shareholders as at 31 December 2016 was approximately RMB2,988.8 million, representing an increase of approximately 21.2% from that as at 31 December 2015, mainly resulted from the contribution of profit by the O2O Business.

In November 2014, the Company issued convertible bonds with a coupon rate of 5% per annum at a total principal value of HK$780.0 million. In May 2016, the Company issued another zero-coupon convertible bond in an aggregate principal amount of HK$380.0 million to three executive Directors. In June 2016, the Company allotted and issued in aggregate of 95.0 million Shares for conversion of the said zero-coupon convertible bonds. The gearing ratio of the Group, being the net debt divided by the total capital, was approximately 15.0% as at 31 December 2016, representing an increase of approximately 3.5% compared with approximately 11.5% as at 31 December 2015.

3. Reasons for and benefits of the Acquisition

As mentioned in the "Business Review" section of the 2015 Annual Report, the Company has begun developing its internet finance business by facilitating the completion of O2O transactions by providing products such as Maoyidai, Xinyongdai and position management through its joint ventures and providing financing lease services through its wholly-owned subsidiaries. In particular, we noted from the management discussion and analysis section in the 2015 Annual Report that the SMEs were facing difficulties in securing bank loans due to stringent requirements of loan approval resulted from the contracted capital liquidity in China, hence, it provided the Company with business opportunities and allowed it to identify such market gap in offering bridging finance, micro loan and finance leasing to help easing the pressure on SMEs' short term cash flows.

To leverage on the low capital liquidity and stringent loan requirements mentioned above, the provision of micro loan related products and finance leases have become the catalysts in fueling the growth of the Group's financial services segment as it supplemented and strengthened the financial capacity of seller's supply chain operating on the Company's online trading platforms.

Furthermore, the Company announced in November 2016 that the Group had further subscribed to approximately 9.72% shareholding in Jingu Bank. The management of the Group expects that such strategic move will complement the growth of the financial services segment, in terms of, potential reach and exposure to various business opportunities and target customers in different geographical locations whom might have strong needs for these micro loans and finance lease services. The Company is also expecting the Acquisition to further improve synergies by exploring the potential business opportunities of Jingu Bank in this regard.

It is noted from the Circular that the Group is currently building up the B2B ecosystem with the financial service segment as a major constituent. As Chongqing Micro-Credit is conducting its business throughout the PRC, the Acquisition will enhance the development and expansion potential of the Group's financial services segment by providing more comprehensive services to SMEs in respects of supply chain and transaction funds etc. Through the Acquisition, the Company is also expecting to benefit from the enhanced financial services segment by a smoother executive decision-making process and an absolute control in the daily operation activities of Chongqing Micro-Credit.

Based on the above consideration, we are of the view that the Acquisition is coherent and it is in line with the Group's stated objective and strategy to expand its financial services segment. The Acquisition is expected to generate synergies by improving the ability in handling the relevant transactions from working closely between the Company and Chongqing Micro-Credit, and hence, it might also strengthen the Group's ability to seize new business opportunities.

4. Industry outlook

Micro-finance is generally referring to the extension of very small loans with minimal monetary value to less financially sound borrowers who typically lack collateral, steady employment and a verifiable or strong credit history. In China, however, micro-finance can mean providing a source of financing, for business entrepreneurs and SMEs with much-needed banking and financing services which they typically find difficult to obtain from the large banks and financial institutions.

SMEs and micro-enterprises play an important role in the PRC's economic development. According to Ipsos Limited ("**Ipsos**"), a global research and consulting firm, SMEs and micro-enterprises accounted for approximately 96.7% of the total number of enterprises in the PRC as at 31 December 2015 and contributed to approximately 60.0% of the PRC's gross domestic product for 2015. Under the thriving PRC economy, SMEs and micro-enterprises in the PRC are also growing rapidly, with a total number of SMEs and micro-enterprises increased from approximately 45.7 million as at 31 December 2010 to approximately 74.9 million as at 31 December 2015, representing a compound annual growth rate ("**CAGR**") of approximately 10.4%. In light of the importance and positive contribution of the SMEs and micro-enterprises to the Chinese economy, the PRC Government has all along be supportive of this economic segment. Under the 13th Five-Year Plan, the PRC Government is aiming to promote the concept of "mass entrepreneurship and innovation" (大眾創業、萬眾創新), and to drive such initiative, it is said to encourage the mass development of service SME-servicing platforms in pilot zones and cities that are low costs, convenient and openly accessible. Furthermore, the PRC Government is said to encourage the participation of social capital into the banking industry to develop financially-inclusive and diversified micro-finance institutions to aid SMEs.

The development of the micro-finance industry experienced the most rapid growth starting from 2008, whereby the China Banking Regulatory Commission and the People's Bank of China jointly promulgated the "Guiding Opinions on the Pilot Operation of Microfinance Companies" (《關於小額貸款公司試點的指導意見》) (the "**Opinions**") in May 2008, which laid the foundation of the development of the micro-finance industry. The Opinions provided the fundamental requirements for establishing, registering and operating a micro-finance company at the national level. Under the Opinions, the provincial governments may launch the pilot operation of micro-finance companies within county territory in their respective province (region, municipality) only after they could determine a competent department (financial affairs office or similar department) to be responsible for the supervision and administration on micro-finance companies and are willing to assume the responsibility for managing the micro-finance companies' risks. The Opinions provided a framework for the formalisation of registration procedures for micro-finance companies which was a key milestone in promoting the industry. In July 2013, the State Council issued the Guidance on the Structural Adjustment, Transformation and Upgrading of the Financially Supported Economy (《關於金融支持經濟結構調整和轉型升級的指導意見》), pursuant to which the PRC Government increased its support, and provided guidance on the diversification of customer segments, of micro-finance companies. Micro-finance companies were also given access to funding at a lower cost. According to Ipsos, the total number of registered micro-finance companies in the PRC increased from 2,614 as at 31 December 2010 to 8,910 as at 31 December 2015, representing a CAGR of approximately 27.8%, and total registered capital in the micro-finance industry amounted to approximately RMB845.9 billion as at 31 December 2015. The principal amount of outstanding loans granted by micro-finance companies in the PRC increased from approximately RMB197.5 billion as at 31 December 2010 to RMB941.2 billion as at 31 December 2015, representing a CAGR of approximately 36.7%.

5. Principal terms of the Formal SPA

(i) Date

19 May 2017 (after trading hours)

(ii) Parties

The Company as the issuer;

Digital China as the subscriber;

the Purchaser as the purchaser; and

the Vendor as the vendor.

(iii) Businesses to be acquired

Pursuant to the Formal SPA, the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Shares. The Sale Shares will be transferred to the Purchaser in one batch or in stages proportionate to the portion of the Consideration paid. Resulting from such transfer(s), Chongqing Micro-Credit would become a subsidiary of the Company upon the Purchaser obtaining control through the acquisition(s) the Sale Shares in one batch or in stages. Upon completion of the transfer of the entire Sale Shares (being the 60% equity interest in Chongqing Micro-Credit), Chongqing Micro-Credit will become an indirect wholly-owned subsidiary of the Company. An overview of Chongqing Micro-Credit's principal business activities and financial information are set out in the section headed "6. Information on Chongqing Micro-Credit" in this letter.

(iv) Consideration

The Consideration for the Acquisition is RMB1,083,637,320 (equivalent to HK$1,227,000,000 based on the Exchange Rate), which shall be financed by internal resources and/or bank loans of the Group.

The Consideration is to be settled in one batch or in stages by the Purchaser in cash within six months after the execution of the first Equity Transfer Agreement. Pursuant to the Formal SPA, the first Equity Transfer Agreement shall be entered into within 90 days from the date of the Formal SPA and the Purchaser would not have any obligations to settle the Consideration unless the conditions precedent contained in the Formal SPA and the Equity Transfer Agreement(s) are fulfilled or waived (as the case may be). Pursuant to the Equity Transfer Agreement, settlement of the Consideration concerned in each stage shall occur within three months following the fulfilment (or waiver, if applicable) of the conditions precedent therein. Digital China has undertaken that upon the Purchaser transferring any part of the Consideration to the Vendor in the PRC, Digital China will within 10 business days pay a sum equal to the said part of the Consideration in HK$ to the Company in Hong Kong to subscribe for New Shares at the Issue Price. Upon the Purchaser paying the whole Consideration, a total of 175,285,714 New Shares shall be subscribed by Digital China or its designated wholly-owned subsidiary. As at the Latest Practicable Date, the Company intends to settle the consideration for 50% of the Sales Shares of approximately RMB542 million in or around August 2017 and the consideration for the remaining 50% of the Sales Shares by the end of 2017. It is expected that (i) the consideration for the first 50% of the Sales Shares will be financed as to approximately RMB220 million by internal resources of the Group and the rest by bank loans; and (ii) the entire consideration for the remaining 50% of the Sales Shares will be financed by bank loan(s) using the subscription money for the New Shares to be received from Digital China corresponding to the first 50% of the Sales Shares as a security.

The Consideration was arrived at after arm's length negotiations between the Company and Digital China. In determining the Consideration, the Directors (excluding the members of the Independent Board Committee) considered, among other factors, (i) the growth potential and prospect of Chongqing Micro-Credit and its business operation; and (ii) the valuation of the Sale Shares based on the Valuation Report.

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

(v) Conditions precedent

Completion is conditional upon the following conditions being satisfied or waived (if applicable) in accordance with the Formal SPA:

1. having obtained, as the Company is a company listing on the Main Board of the Stock Exchange, all necessary approvals, authorisations, consents and permits (including but not limited to the unconditional approval for the listing of, and permission to deal in, the New Shares from the Listing Committee of the Stock Exchange and such approvals, authorisations, consents, and permits have not been revoked or withdrawn);

2. the Company having obtained, where applicable, in accordance with the Listing Rules, Cayman Islands' company law, the articles of association of the Company, and other legal requirements, in its Board meeting and the EGM the approval for (i) the Company's execution and performance of its obligation under the Formal SPA, (ii) the Purchaser purchasing the Sale Shares at the Consideration from the Vendor, and (iii) the Board to issue New Shares under the Specific Mandate (only applicable for EGM);

3. Digital China having obtained, in accordance with the Listing Rules, its articles of association and/or applicable laws and regulations, in its board meeting the approval for its execution and performance of its obligation under the Formal SPA;

4. having obtained consents, authorisations, permits, approvals and any other form of consents, authorisations and approval that may be necessary pursuant to any existing contractual arrangements of Chongqing Micro-Credit and/or its subsidiary/(ies) and/or any parties to the Formal SPA for the completion of the all the transactions contemplated in the Formal SPA;

5. Chongqing Micro-Credit and/or its subsidiary/(ies) and/or any parties to the Formal SPA, for the completion of the all the transactions contemplated in the Formal SPA, having obtained all necessary consents, authorisations, permits or approval from governmental

departments and/or regulatory institutions (including but not limited to the approval of 重慶市人民政府金融工作辦公室 (Chongqing Municipal People's Government Financial Affairs Office*) approving the change of equity holdings caused by the transfer(s) of the Sale Shares) as required under any laws, the Listing Rules or other applicable regulations; and

6. the warranties remaining true, accurate and not misleading at each stage of transfer of the Sale Share(s) and subscription of the New Share(s) in all respects until completion of the transfer of the entire Sale Shares and full Subscription as if the warranties were repeatedly made during the period from the date of the Formal SPA to the completion of the transfer of the entire Sale Shares and full Subscription.

The Company and Digital China is entitled to waive conditions precedent numbered 4 and 6 respectively above while the remaining conditions precedent are non-waivable. As at the Latest Practicable Date, only the abovementioned condition precedent numbered 4 has been fulfilled.

(vi) Equity Transfer Agreement

The Purchaser and the Vendor shall enter into Equity Transfer Agreement(s) with regard to each batch of the transfer of the Sale Shares. The Equity Transfer Agreement(s) will be governed by the PRC laws and is/are needed as a matter of procedural formality for the registration in the PRC corresponding and incidental to each batch of the transfer of the Sale Shares. We understand that pursuant to the Formal SPA, the first Equity Transfer Agreement shall be entered into with 90 days from the date of the Formal SPA.

The number of the Sales Shares, amount and timeline of the consideration to be paid for that batch of the Sales Shares will be set out in the relevant Equity Transfer Agreement(s). Completion of the transfer of the Sales Shares concerned under the Equity Transfer Agreement(s) will be conditional upon a number of conditions being satisfied or waived in accordance with the Equity Transfer Agreement(s). Please refer to the paragraph headed "Equity Transfer Agreement(s)" under the section headed "Formal SPA" in the letter from the Board of the Circular for details of the conditions to the Equity Transfer Agreement(s),

We have reviewed the draft Equity Transfer Agreement, the agreed contents of which have been annexed to the Formal SPA and note that it is the agreement to be executed between the Purchaser and the Vendor in respect of the Acquisition in one batch or in stages as required by PRC laws and regulations in order to complete the transfer(s) of the Sale Shares.

(vii) Completion and termination

The Formal SPA will lapse if (i) completion of the first stage of the Acquisition and the corresponding Subscription does not take place on or before 31 December 2017; or (ii) Completion (completions of the Acquisition and the Subscription) does not take place on or before the first anniversary of the date of the Formal SPA. However, the Sale Share(s) already acquired by the Purchaser and the New Share(s) already subscribed by Digital China before the lapse of the Formal SPA will not be affected by the abovementioned lapse.

In the event that the registration procedures under the PRC regulations in respect of the transfer of the relevant Sale Shares are not completed within 30 days after the Purchaser has paid the relevant Consideration, the Purchaser will be entitled to: (i) request the Vendor to use its best endeavour to complete the registration procedures as soon as possible; or (ii) terminate the Formal SPA in which case the Vendor shall refund the relevant Consideration paid by the Purchaser together with the deposit interest accrued thereon to the Purchaser.

(viii) Deed of Undertaking

The Company shall on the same date of the date of the first Equity Transfer Agreement execute a deed to indemnify Digital China, on a pro rata basis according to the proportion of the Sale Shares having been transferred by the Vendor to the Purchaser at the material time, repay or assume Digital China's payment obligation to Huatai Securities (Shanghai) Asset Management Co., Ltd.* (華泰證券(上海)資產管理有限公司) under a commitment letter executed by Digital China on 23 December 2016. Pursuant to such commitment letter, Digital China undertook that if Chongqing Micro-Credit fails to perform its obligation to fully redeem any disqualified underlying assets of the asset-backed securities issued by Chongqing Micro-Credit pursuant to the Huicong Asset-backed Special Project Phase I (慧聰一期資產支持專項計劃), Digital China shall finance 60% of the part that Chongqing Micro-Credit fails to perform its obligation. The maximum amount undertaken by Digital China under the said commitment letter was RMB174 million.

Pursuant to the Huicong Asset-backed Special Project Phase I (慧聰一期資產支持專項計劃), Chongqing Micro-Credit has issued asset-backed securities with a principal amount of RMB290 million to qualified investors in the PRC that are backed by the loan assets of Chongqing Micro-Credit and Huatai Securities (Shanghai) Asset Management Co., Ltd. (華泰證券(上海)資產管理有限公司) was the administrator of the project.

6. Information on Chongqing Micro-Credit

(A) Background information of Chongqing Micro-Credit

Chongqing Micro-Credit is a company established in the PRC and is indirectly owned as to 40% by the Company and 60% by Digital China through their respective wholly-owned subsidiaries. Chongqing Micro-Credit is principally engaged in development and operation of the micro-credit internet financing business in the PRC and development of micro-finance products such as trade finance, personal credit and guaranteed loan.

(B) Financial information of Chongqing Micro-Credit

Set out below is the discussion and analysis of the financial information of Chongqing Micro-Credit.

(i) Financial performance

The following is an extract of the audited financial results of Chongqing Micro-Credit for the period from 13 May 2014 (being the date of establishment) to 31 December 2014 and the two years ended 31 December 2015 and 2016.

	For the period from 13 May 2014 (date of establishment) to 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Interest income	9,713	112,857	197,759
Interest expense	–	(8,576)	(42,206)
Net interest income	9,713	104,281	155,553
Marketing expenses	(436)	(20,923)	(6,373)
General and administrative expenses	(8,599)	(46,845)	(58,239)
Operating profit	678	36,513	90,941
Finance income	2,035	1,971	1,567
Profit before taxation	2,713	38,484	92,508
Income tax expense	(664)	(9,667)	(23,197)
Profit after taxation and total comprehensive income attributable to equity holders of Chongqing Micro-Credit	2,049	28,817	69,311

(1) Net interest income

As set out above, interest income for the period from 13 May 2014 to 31 December 2014 and for the two years ended 31 December 2015 and 2016 (the "**Financial Review Period**") were approximately RMB9.7 million, RMB112.9 million and RMB197.8 million, respectively. The interest income was primarily derived from the provision of micro credit internet financing with products such as trade finance, personal credit and guaranteed loans in the PRC. We understand from the management of the Group that the significant increase in the interest income was mainly because of (i) the increase in net loans receivable from approximately RMB655.3 million as of 31 December 2014 to approximately RMB1,613.4 million as of 31 December 2016; and (ii) the increase in the weighted average annual interest rate for the loans receivable from approximately 10.8% for the year ended 31 December 2014 to approximately 14.1% for the year ended 31 December 2016.

During the Financial Review Period, the interest expense of Chongqing Micro-Credit were nil, RMB8.6 million and RMB42.2 million, respectively, and we noted that the significant increase was attributable to (i) net increase in borrowings from approximately RMB370.0 million as at 31 December 2015 to approximately RMB491.9 million as at 31 December 2016; and (ii) the increase in the average interest rate for loans from shareholders of Chongqing Micro-Credit from approximately 6.9% per annum as at 31 December 2015 to approximately 8.0% per annum as at 31 December 2016.

(2) Marketing expenses

During the Financial Review Period, the marketing expenses of Chongqing Micro-Credit were approximately RMB0.4 million, RMB20.9 million and RMB6.4 million, respectively. As per our discussion with the management of the Group, we noted that 2015 was the first full year operation, and there were several one-off marketing expenses used for business promotions.

(3) General and administrative expenses

During the Financial Review Period, the general and administrative expenses of Chongqing Micro-Credit were approximately RMB8.6 million, RMB46.8 million and RMB58.2 million, respectively. We noted that the increase in general and administrative expenses was generally in line with Chongqing Micro-Credit's business expansion. However, we noted that the general and administrative expenses were increasing at a diminishing rate and we understand that it is mainly due to (i) the fall in professional and consultancy fee to approximately RMB11.3 million for the year ended 31 December 2016 from approximately RMB14.9 million for the year ended 31 December 2015; and (ii) the mild increase in provision for the impairment loss of loans receivable to approximately RMB23.4 million for the year ended 31 December 2016 from approximately RMB15.2 million for the year ended 31 December 2015. In addition, we noted from the management of the Group that there was an one-off software maintenances fee of approximately RMB8.5 million in 2015 due to major software upgrade to improve internet security and the processing power of the micro financial services platform of Chongqing Micro-Credit for the increasing online transaction volume.

(4) Finance income

During the Financial Review Period, finance income from bank deposits of Chongqing Micro-Credit was approximately RMB2.0 million, RMB2.0 million and RMB1.6 million, respectively. The decrease in the finance income in 2016 was due to the decrease of Chongqing Micro-Credit's cash at banks during 2016.

(5) Profit after taxation and total comprehensive income attributable to the equity holders of Chongqing Micro-Credit

As a result of the aforementioned reasons and factors, the profit after taxation and total comprehensive income attributable to the equity holders of Chongqing Micro-Credit jumped from approximately RMB2.0 million in 2014 to RMB28.8 million in 2015 and eventually grown to approximately RMB69.3 million in 2016.

(ii) Financial position

The following is an extract of the audited financial position of Chongqing Micro-Credit for as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Equipment	50	110	101
Loans receivable	–	57,366	400,373
	50	57,476	400,474
Current assets			
Loans receivable	655,265	1,325,868	1,213,070
Deposits and other receivables	2,440	6,413	8,475
Cash and cash equivalents	20,613	33,290	6,629
	678,318	1,365,571	1,228,174
Total assets	678,368	1,423,047	1,628,648
Equity			
Share capital	675,000	1,000,000	1,000,000
Reserves	205	3,087	10,018
Retained earnings	1,844	27,779	90,159
Total equity	677,049	1,030,866	1,100,177
Non-current Liabilities			
Borrowings	–	–	184,000
Current liabilities			
Accruals and other payables	300	16,516	29,058
Borrowings	–	370,000	307,876
Other taxes payables	355	789	944
Income tax payables	664	4,876	6,593
	1,319	392,181	344,471
Total liabilities	1,319	392,181	528,471
Total liabilities and equity	678,368	1,423,047	1,628,648

(1) Loans receivable

The non-current portion of loans receivable of Chongqing Micro-Credit were nil, approximately RMB57.4 million and RMB400.4 million as at 31 December 2014, 31 December 2015 and 31 December 2016, respectively. The notable increase in non-current portion of loans receivable was due to the increase in loan portfolio which certain types of loan products had a repayment schedule of 1 year or more.

The current portion of loans receivable of Chongqing Micro-Credit were approximately RMB655.3 million, RMB1,325.9 million and RMB1,213.1 million as at 31 December 2014, 31 December 2015 and 31 December 2016, respectively. As discussed above, Chongqing Micro-Credit's loan portfolio has increased during the Financial Review Period, however, current portion of loans receivable has mildly reduced as at 31 December 2016 when compared to the previous year. As discussed with the management of the Group, we understood that some of the loans had undergone re-negotiation to allow the repayment terms to be prolonged. As a result, it led to the mild fall in loans receivable in this category as at 31 December 2016.

(2) Equity and capital structure

As at 31 December 2014, the capital structure of Chongqing Micro-Credit consisted of share capital of RMB675.0 million and had no interest-bearing borrowings. As at 31 December 2015, the capital structure of Chongqing Micro-Credit consisted of share capital of RMB1,000.0 million and interest-bearing borrowings of RMB370.0 million. The increase in equity of 2015 was due to the one-off capital injection by the shareholders into Chongqing Micro-Credit and the relevant procedures were completed on 5 February 2015. As at 31 December 2016, the capital structure of Chongqing Micro-Credit consisted of share capital RMB1,000.0 million and interest-bearing borrowings of approximately RMB491.9 million.

(3) Borrowings

Chongqing Micro-Credit did not have any long-term borrowings as at 31 December 2014 and 31 December 2015, however, borrowings of approximately RMB184.0 million were recorded as at 31 December 2016. As noted from the accountants' report of Chongqing Micro-Credit set out in Appendix II to the Circular, the aforementioned sums were loans from third parties, provided by independent asset management companies and private equity fund, for its operation. The loans bore an average interest rate of approximately 6.3% per annum.

The short-term borrowings of Chongqing Micro-Credit were nil, RMB370.0 million and approximately RMB307.9 million at 31 December 2014, 31 December 2015 and 31 December 2016, respectively. As at 31 December 2015, the entire borrowings were attributable to loans from shareholders of Chongqing Micro-Credit with an average interest rate of approximately 6.9% per annum (2016: average of approximately 8.0% per annum) and the same borrowings has been fully repaid in 2016. In addition, Chongqing Micro-Credit has taken out net short-term loans of approximately RMB307.9 million in 2016 of which approximately

RMB180.0 million were from shareholders and approximately RMB127.9 million were from third parties.

7. Assessment of the Consideration

(A) Business valuation

Introduction

As discussed in the letter from the Board in the Circular, the Consideration was arrived after arm's length negotiation between the Company and Digital China. In determining the Consideration, the Directors (excluding the members of the Independent Board Committee) considered, among other factors, (i) the growth potential and prospect of Chongqing Micro-Credit and its business operation; and (ii) the valuation of the Sale Shares based on the Valuation Report. The Company engaged Access Partner to prepare the Valuation Report which set out the Valuation on the 60% equity interest in Chongqing Micro-Credit as at 31 March 2017 (the "**Valuation Date**") for acquisition reference.

Independent Shareholders' attention is drawn to the appraised value of the Sale Shares of RMB1,100.0 million as set out in the Valuation Report. The consideration for the Sale Shares is approximately RMB1,083.6 million, which is at a discount of approximately 1.5% to the appraised value.

We have reviewed the Valuation Report and interviewed the relevant team members of Access Partner with particular attention to (i) Access Partner's terms of engagement with the Company; (ii) Access Partner's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by Access Partner in performing the Valuation. From our review of the engagement letter between the Company and Access Partner, we are satisfied that the terms of engagement between the Company and Access Partner are appropriate to the opinion Access Partner is required to give. Access Partner has confirmed that it is independent from the Company, Digital China, Chongqing Micro-Credit, the Purchaser and the Vendor and its related persons. We further understand that Access Partner is certified with the relevant professional qualifications required to perform the Valuation and the person in-charge of the Valuation has over eight years' experience in conducting valuation services to a wide range of clients in different industries. We note that Access Partner mainly carried out its due diligence through management interviews and conducted its own proprietary research and has relied on public information obtained through its own research as well as the financial information provided by the management of the Group. We were advised by Access Partner that it has assumed such information to be true, complete and accurate and has accepted it without verification.

Valuation methodology

We note that the Valuation was based on the market approach. The market approach refers to valuation by comparing Chongqing Micro-Credit with reference to the business nature and operating information of public listed companies that Access Partner considered to be comparable to Chongqing Micro-Credit (the "**Valuation Comparable Companies**"), with adjustments made to reflect the condition and utility of Chongqing Micro-Credit (if necessary and appropriate), to arrive at the appraised value of Chongqing Micro-Credit. We have discussed with Access Partner the methodologies, bases and assumptions adopted during the course of conducting the market approach. As stated in the Valuation Report, Access Partner considers the market approach to be the most appropriate valuation approach over the income approach and the cost approach as (i) the income approach requires subjective assumptions to which the valuation is highly sensitive and detailed operational information and long-term financial projections are also needed to arrive at an indication of value; and (ii) the cost approach is less likely to reflect current market expectations over the corresponding industry since the price multiples of the Valuation Comparable Companies were arrived from market consensus and capture the future growth potentials of Chongqing Micro-Credit. Access Partner also highlighted other benefits of the market approach, including the objectivity in application as publicly available inputs used under such approach. We agree to Access Partner's adoption of the market approach as the valuation methodology.

Sample selection

The fair value of Chongqing Micro-Credit was determined with reference to the business nature and operational information of publicly listed companies that are considered to be comparable to Chongqing Micro-Credit. Access Partner identified 11 Valuation Comparable Companies which: (i) are principally engaged in provision of consumer and commercial financing in the PRC; and (ii) are listed in the PRC or on the Stock Exchange. For details of the 11 Valuation Comparable Companies please refer to the Valuation Report as set out in Appendix V to the Circular.

We have discussed with Access Partner its selection criteria and assessed the appropriateness of the Valuation Comparable Companies selected. During the course of our assessment of the Valuation Comparable Companies, we noted that Access Partner had not only included micro-credit internet financing business but also companies that mainly engaged in the provision of loans and financing (the "**Traditional Finance Companies**") as well as Hanhua Financial Holding Company Limited, China Success Finance Group Holdings Limited and Guangdong Join-Share Financing Guarantee Investment Company Limited (the "**Financial Guarantee Companies**") which were principally engaged in the provision of financing guarantee services. We have discussed with Access Partner in relation to the appropriateness of including the Traditional Finance Companies and the Financial Guarantee Companies to the list of Valuation Comparable Companies. As explained by Access Partner, and as further elaborated by us is that one of the key pitfalls associated with solely including micro-credit internet financing businesses in the list of Valuation Comparable Companies is that the list of comparables would not be sufficient and representative enough to derive at a meaningful valuation of Chongqing Micro-Credit. The inclusion of the Traditional Finance Companies and the Financial Guarantee Companies have the ability to enable Access Partner to form a more comprehensive and representative sample that can reflect the business returns and risks in assessing the subject valuation. Furthermore, as stated in the Valuation Report, companies that engage in financial guarantee services act as a surety and provide guarantees on behalf of the borrowers to assist them in obtaining loans from banks or other financial institutions by guaranteeing the repayment of the loans. In case of default on repayment from the borrowers, the lender has the first claim towards the guarantor. Having considered: (i) similar nature of business operation of the Financial Guarantee Companies in the PRC; and (ii) similar risk profile of the Financial Guarantee Companies' business operation, Access

Partner considered that the Financial Guarantee Companies are part of the financing industry. Having considered Access Partner's reasonings, we considered the inclusion of the Traditional Finance Companies and the Financial Guarantee Companies to the list of Valuation Comparable Companies to be justifiable. In addition, we noted that if the Financial Guarantee Companies were excluded, the average Adjusted P/B Multiple (as defined below) for determining the appraised value of the Sale Shares would have been higher. The inclusion of the Financial Guarantee Companies in the Valuation would make the Consideration relatively more favourable to the Company.

Independent Shareholders' attention is drawn to our comparable companies analysis set out in the section headed "7(B). Comparable Companies" in this letter, which set out the reason for adopting a different set of criteria in establishing the Comparable Companies (as defined below) in our review.

Choice of valuation multiples

For the selection of the valuation multiple, Access Partner opted for the measure of price-to-book multiples (the "**P/B Multiples**") ratio in deriving the fair value of equity interest of Chongqing Micro-Credit. According to Access Partner, the P/B Multiple expresses how much investors are willing to pay for a company's total net assets. Owing to the capital-intensive characteristic and the financial business nature of the Chongqing Micro-Credit's principal business activities, Access Partner considered the P/B Multiples of the Valuation Comparable Companies to be the most appropriate valuation multiple over the other two commonly used valuation multiples, namely price-to-sales multiple and price-to-earnings multiple. In this regard, we consider Access Partner's use of the P/B Multiples to be reasonable.

Size Premium

According to the Valuation Report, due to the fact that the Valuation Comparable Companies are often of significantly different size than Chongqing Micro-Credit, larger companies generally have lower expected returns that translate into higher value while small companies are perceived as more risky in relation to business operation and financial performance and hence the expected returns are higher, resulting in lower valuation multiple, Access Partner has taken into account the impact of the difference on the book value between the Valuation Comparable Companies and Chongqing Micro-Credit to the valuation. Set out below is the proposed adjustment to the P/B Multiple (the "**Adjusted P/B Multiples**") by Access Partner taking into account the impact of the size difference:

$$\textit{The Adjusted P/B Multiples} = \frac{1}{\frac{1}{M} + B}$$

Where:
M = the P/B Multiple
*B = required increase in the equity discount rate for size difference ("**Size Premium**")*

We have reviewed and discussed with Access Partner on the basis of determining the Size Premium on each Valuation Comparable Company. From the above formula, Access Partner considered that the reciprocal of the P/B Multiples in substance refers to the capitalisation rate of the market capitalisation of a company. Adding the Size Premium to the reciprocal of the P/B Multiples reflects the risk adjustment on the market size compared with Chongqing Micro-Credit. According to Access Partner, the Size Premium was supported by Ibbotson SBBI 2016 Valuation Yearbook, a widely recognised standard performance data reference covering different types of securities drawing on the historical capital market data of the United States. We have obtained the extract of Ibbotson SBBI 2016 Valuation Yearbook in relation to determining the Size Premium and noted that the Size Premium applied to the Valuation Comparable Companies were in accordance with the suggested size premium to be applied to companies with different market capitalisation from Ibbotson SBBI 2016 Valuation Yearbook. Having regard the above, we considered the adjustment applied by Access Partner to be reasonable.

As shown in the table above, the Adjusted P/B Multiples of the Valuation Comparable Companies ranged from approximately 0.42 times to approximately 4.47 times, with an average and median of approximately 1.67 times and 0.91 times respectively. We have discussed with Access Partner in relation to the appropriateness of assigning the Adjusted P/B Multiples in valuing Chongqing Micro-Credit.

Control Premium

Since the Acquisition involves transferring the controlling stake of a company, Access Partner has applied a control premium of 25% (the "**Control Premium**") in the valuation exercise. According to Access Partner, the control premium generally represents the amount paid by an investor for the benefit of controlling the subject company's assets and cash flows. We have discussed with Access Partner the concept of the Control Premium and noted that such control premium was commonly applied in valuation exercise and the Control Premium of 25% was within the range of the premium applied to in Access Partner's valuation. We understand from Access Partner that the Control Premium was adopted with reference to study of control premium study in 4th Quarter 2016 published by FactSet Mergerstat, LLC, which a major provider of financial information and analytical data for investment professionals. We have obtained the relevant extract of the study noted that, according to the study, the median of control premium in 84 international transactions was approximately 25.7%, which is close to the Control Premium applied by Access Partner. We also noted that the concept of the Control Premium was adopted by other professional valuers in business valuation of a controlling stake of a target company in the Hong Kong market. Having considered: (i) the empirical data support by a global financial database provider; and (ii) the adoption of the concept of the Control Premium by other professional valuers in similar business valuation exercise in the Hong Kong market, we consider that the Control Premium of 25% applied by Access Partner in the Valuation to be reasonable.

DLOM

In addition, as Chongqing Micro-Credit is a privately held company, Access Partner has applied a discount for lack of marketability of 20% (the "**DLOM**") to reflect downward adjustment to the value of an investment due to reduced level of marketability of a privately held company. We have discussed with Access Partner the concept of the DLOM and noted that the DLOM was commonly applied in valuation exercise on unlisted companies and the DLOM of 20% was within the range of the discounts applied to unlisted companies in Access Partner's valuation. We understand from Access Partner that the DLOM in the Valuation was adopted with reference to a few studies which include "International Private Equity and Venture Capital Valuation Guidelines", jointly published by the Association Francaise des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association and "Determining Discounts for Lack of Marketability: A Companion Guide (2016 Edition) to the FMV Restricted Stock Study" (the "**Guide**") published by Business Valuation Resources, LLC. We noted the FMV Restricted Stock Study is a database that provides empirical support to quantify DLOM used in business valuations, venture capital and merger and acquisition professionals. We have obtained the Guide and noted that the average discount for approximately 778 private placements of unregistered common stock transactions issued by public traded companies from 1980 to 2015 was approximately 19.3%, is close to the DLOM of 20% adopted by Access Partner. We also noted that the concept of the DLOM was also adopted by other professional valuers in business valuation of unlisted target companies. Having considered: (i) the reference from global financial database provider in the DLOM; and (ii) the use of the DLOM by other professional valuer in similar valuation exercises, we consider that the DLOM of 20% applied to the Valuation to be reasonable.

Putting all the variables to the valuation, Access Partner multiplied the average of the Adjusted P/B Multiples of the Valuation Comparable Companies of approximately 1.67 times by the net book value of Chongqing Micro-Credit as at 31 December 2016 of approximately RMB1,100.2 million to arrive at the appraised value of the 100% equity interest of Chongqing Micro-Credit of approximately RMB1,837.3 million. Access Partner then adjusted the effect of the Control Premium of 25% and the DLOM of 20% to arrive the appraised value of the 100% equity interest of Chongqing Micro-Credit of approximately RMB1,837.3 million. As such, the appraised value of 60% of the equity interest of Chongqing Micro-Credit was approximately RMB1,100 million.

Our view

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

(B) Comparable Companies

Apart from reviewing the Valuation, we have performed our own review of the Consideration based on the Comparable Companies (as defined below). In order to examine the fairness and reasonableness of the Consideration, we have carried out analysis based on comparing relevant peer companies, engaged in similar principal business, against Chongqing Micro-Credit.

In such regard, we have identified and reviewed, to the best of our knowledge and ability, P/B Multiples, price-to-earnings multiples (the "**P/E Multiples**") and price/earnings to growth multiples (the "**PEG Multiples**") of the comparable companies (the "**Comparable Companies**") (i) the shares of which are listed on the Stock Exchange; and (ii) with majority of the revenue derived from carrying out loan financing related business in the PRC.

Based on the above criteria, set out below are the Comparable Companies together with the relevant P/B Multiples, P/E Multiples and PEG Multiples, the information of which we consider to be a fair and representative sample for the purpose of drawing a meaningful comparison to the Consideration.

Name	**Stock code**	**Principal business activities**	**Market capitalisation as at the Latest Practicable Date** *(HK$' million)*	**P/B Multiple** *(Note 1) (times)*	**P/E Multiple** *(Note 1) (times)*	**PEG Multiple** *(Note 1) (times)*
Credit China FinTech Holdings Limited	8207	Credit China FinTech Holdings Limited is a financing service provider. The company offers FinTech services including third party payment, online investment and technology-enabled lending as well as traditional loans and financing services to SMEs, merchants and individuals in China and Asia.	23,829.8	4.69	69.89	0.28

Name	Stock code	Principal business activities	Market capitalisation as at the Latest Practicable Date *(HK$' million)*	P/B Multiple *(Note 1)* *(times)*	P/E Multiple *(Note 1)* *(times)*	PEG Multiple *(Note 1)* *(times)*
Gome Finance Technology Company Limited	628	Gome Finance Technology Company Limited is a financial service platform company. The company provides lending credit and debt, floatation of loans, investment management consulting, and other services.	3,025.3	1.49	N/A *(Note 2)*	N/A *(Note 2)*
Differ Group Holding Company Limited	6878	Differ Group Holding Company Limited operates as a diversified financial holding company. The company provides services in security, pawn, finance, leasing and financial advisory.	2,795.8	2.40	18.22	0.60
China Financial Service Holdings Limited	605	China Financial Services Holdings Limited is a diversified financial services company. The company, through its subsidiaries, provides direct loans by self-owned funds, bank loans by guarantee company, corporate bonds or collective notes financing service through the guarantee function, and financing consulting service based on the financing needs of SMEs.	2,765.6	0.92	8.38	N/A *(Note 3)*

Name	Stock code	Principal business activities	Market capitalisation as at the Latest Practicable Date *(HK$' million)*	P/B Multiple *(Note 1)* *(times)*	P/E Multiple *(Note 1)* *(times)*	PEG Multiple *(Note 1)* *(times)*
Quanzhou Huixin Micro-Credit Company Limited	1577	Quanzhou Huixin Micro-Credit Company Limited offers micro lending and other related financial services to individuals and small business throughout China.	1,190.0	1.12	12.29	0.90
China Huirong Financial Holdings Limited	1290	China Huirong Financial Holdings Limited is a short-term secured financing service provider. The company specializes in providing short-term loans secured by collateral, or "pawn loans", to customers.	1,148.3	0.64	25.30	N/A *(Note 3)*
Zuoli Kechuang Micro-Finance Company Limited	6866	Zuoli Kechuang Micro-Finance Company Limited focuses on providing credit-based financing solutions to Deqing's fast-growing SME and microenterprise sector.	1,144.6	0.74	6.92	N/A *(Note 4)*

Name	Stock code	Principal business activities	Market capitalisation as at the Latest Practicable Date *(HK$' million)*	P/B Multiple *(Note 1)* *(times)*	P/E Multiple *(Note 1)* *(times)*	PEG Multiple *(Note 1)* *(times)*
Yangzhou Guangling District Taihe Rural Micro-finance Company Limited	8252	Yangzhou Guangling District Taihe Rural Micro-finance Company Limited offers financial services provides loans issuing, financing guarantee, financial institutions business agency, and other businesses. The company serves small and medium enterprises, individual businesses, and other groups in Yangzhou.	1,032.0	1.32 *(Note 5)*	15.97 *(Note 5)*	N/A *(Note 3)*
			Simple average (mean)	**1.66**	**22.42**	**0.59**
			Median	**1.22**	**15.97**	**0.60**
			Maximum	**4.69**	**69.89**	**0.90**
			Minimum	**0.64**	**6.92**	**0.28**
The Consideration ***(Note 6)***				**1.64**	**26.06**	**0.19**

Note(s):

1. Save for the Consideration, the P/E Multiples and the P/B Multiples of the Comparable Companies are respectively calculated based on the market capitalisation as at the Latest Practicable Date respectively divided by the most recent net profit attributable to the shareholders and the NAV attributable to the shareholders of the Comparable Companies as shown in their respective latest published annual results announcements or annual reports or quarterly results announcements (in the case of GEM Board listed companies, if applicable). The PEG Multiples are calculated by dividing the respective P/E Multiples by the respective growth rate of net profit attributable to shareholders of the Comparable Companies between the two years ended 31 December 2015 and 2016.

2. Gome Finance Technology Co., Ltd. recorded loss attributable to the shareholders for the year ended 31 December 2016, rendering its P/E Multiple and PEG Multiple not meaningful.

3. China Huirong Financial Holdings Ltd., China Financial Service Holdings Ltd and Yangzhou Guangling District Taihe Rural Micro-finance Company Limited recorded lower profit attributable to shareholders for the year ended 31 December 2016 than their respective profit attributable to shareholders for the year ended 31 December 2015, rendering their PEG Multiples not meaningful.

4. We consider the PEG Multiple of Zuoli Kechuang Micro-Finance Company Limited of approximately 165.65 times to be an anomaly as its growth rate of net profit attributable to shareholders between the two years ended 31 December 2015 and 2016 was almost nil (i.e. at 0.04%). We have specifically excluded this multiple to avoid creating anomalous results.

5. Yangzhou Guangling District Taihe Rural Micro-finance Company Limited ("**Taihe**") was listed on the Stock Exchange since 8 May 2017 and a significant amount of net proceeds was raised from its initial public offering remain unutilised, being approximately RMB150.3 million. As such, the current market capitalisation value of Taihe may not only reflect the value of the operations of Taihe but also the value of such idle and unutilised cash. As such, the unutilised cash of approximately RMB150.3 million was deducted from the market capitalisation value of Taihe on a dollar-for-dollar basis. Similarly, adjustment was made to the net profit attributable to the shareholders of Taihe by excluding the listing expense of approximately RMB8.27 million for the year ended 31 December 2016.

6. The implied P/B Multiple, implied P/E Multiple and implied PEG Multiple of the Consideration are calculated assuming the Company were to acquire 100% stake of Chongqing Micro-Credit. The adjusted Consideration (the "**Adjusted Consideration**") of RMB1,806.0 million is calculated based on the Consideration of RMB1,083.6 million divided by 0.6. The implied P/B Multiple is calculated by dividing the Adjusted Consideration by the audited NAV attributable to the shareholders of Chongqing Micro-Credit as at 31 December 2016 of approximately RMB1,100.2 million. The implied P/E Multiple is calculated by dividing the Adjusted Consideration by the audited net profit attributable to the shareholders of Chongqing Micro-Credit for the year ended 31 December 2016 of approximately RMB69.3 million. The implied PEG Multiple is calculated by dividing the implied P/E Ratio with the growth rate of net profit attributable to shareholders of Chongqing Micro-Credit between the two years ended 31 December 2015 and 2016 of approximately 140.5%.

The P/B Multiples of the Comparable Companies ranged from approximately 0.64 times to approximately 4.69 times with a simple average and a median of approximately 1.66 times and 1.22 times, respectively. The implied P/B Multiple of the Consideration of 1.64 times is within range of the Comparable Companies' P/B Multiples. It is almost at par with the simple average, but it is higher than the median of the Comparable Companies.

The P/E Multiples of the Comparable Companies ranged from approximately 6.92 times to approximately 69.89 times with a simple average and a median of approximately 22.42 times and 15.97 times, respectively. The implied P/E Multiple of 26.06 times of the Consideration is within the range of the Comparable Companies' P/E Multiples but it is slightly higher than the simple average and higher than the median of the Comparable Companies.

To draw a clearer and balanced view, we have further considered the PEG Multiples of the Comparable Companies with an attempt to give some weight to Chongqing Micro-Credit's high earnings growth in 2016, analysing Micro-Credit's P/E Multiple from a different angle which seeks to provide a more complete picture by highlighting's Chongqing Micro-Credit's earnings growth potential. The PEG Multiple of the Comparable Companies ranged from approximately 0.28 times to approximately 0.90 times with a simple average and a median of approximately 0.59 times and 0.60 times, respectively. The implied PEG Multiple of Chongqing Micro-Credit of approximately 0.19 times is significantly lower than the Comparable Companies' average and it also sits outside the Comparable Companies' lower bound. In light of this, we consider that the high P/E Multiple in relation to the Comparable Companies has reflected the fact that Chongqing Micro-Credit is a rapidly growing micro-credit company whereby its year-on-year earnings growth of approximately 140.5% is significantly higher than its peers. To illustrate, the Comparable Companies' year-on-year earnings growth rate for the same period ranged from approximately 13.64% to 251.75% with an average of approximately 98.65% which lagged behind Chongqing Micro-Credit's year-on-year earnings growth.

To draw to the Independent Shareholders' attention, there is potential limitations of us using PEG Multiples as it was calculated based on the profit growth between the two years ended 2015 and 2016 since Chongqing Micro-Credit has less than three full years of financial record we were unable to calculate a longer-term CAGR of Chongqing Micro-Credit's earnings. It is noteworthy that the high year-on-year net profit growth rate between the two years ended 2015 and 2016 of approximately 140.5% is partly attributable to the low base of Chongqing Micro-Credit's 2015 net profit since Chongqing Micro-Credit was only established in May 2014 and 2015 is the first full financial year.

It is worthwhile to point out that though both using the market approach, our approach differ from that of Access Partner in the Valuation on a few fronts: (i) the number of the Comparable Companies differ from 11 Valuation Comparable Companies used by Access Partner where we specifically excluded Anhui Xinli Finance Co., Ltd., which is listed in the PRC stock market and three Hong Kong listed companies (i.e. Hanhua Financial Holding Co., Ltd., China Success Finance Holdings Ltd. and Guangdong Join-Share Financing Guarantee Investment Co., Ltd. (i.e. the Financial Guarantee Companies)) with a majority of revenue attributable to financial guarantee and other related consulting income; (ii) we have not included the adjustments such as Size Premium adjustments, Control Premium adjustments and DLOM adjustments; (iii) the valuation multiples of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies as at the Latest Practicable Date while the Valuation used those of the Valuation Comparable Companies as at the Valuation Date; and (iv) instead of using only the P/B Multiples as the sole valuation multiple for comparison purpose, we have also included other valuation multiples i.e. the P/E Multiples and PEG Multiples.

We consider the aforesaid differences between our approach and that of Access Partner are largely due to each's own independent professional judgement and neither should one try to influence each other decision in carrying out one's own approach. Our set of the Comparable Companies, as explained above, are considered by us to be a fair and representative sample for the purpose of drawing a meaningful comparison to the Consideration. As can be seen in the previous section, we have considered Access Partner's decision to apply the selection criteria consider it reasonable but this would not influence our decision to apply our own set of selection criteria which we consider to be relatively more specific and direct to draw comparison with the Consideration. Notably, our exclusion of the Financial Guarantee Companies and the PRC listed company is aiming at using more directly comparable peer companies for our sample. With respect to the exclusion of the adjustments used by Access Partner, we have to emphasise that our approach is drawing an approximate comparison between the implied valuation multiples with those of the Comparable Companies but not seeking to determine a precise valuation figure for the Consideration and the approach of which in line with market practice. Likewise, the use of the market capitalisation of the Comparable Companies as at the Latest Practicable Date instead of as at the Valuation Date was intended to differ from the Access Partner's approach to seek to test the Consideration/Valuation in light of the latest current market capitalisation. Furthermore, the reason we have included the P/E Multiples and PEG Multiples is because we would like to highlight and explain to the Independent Shareholders implications of the earnings of Chongqing Micro-Credit on the implied valuation of the Consideration. Lastly, our approach, given the abovementioned variants to the approach employed by Access Partner, in our view, can be used as an effective independent cross-check of the Valuation.

8. Assessment of the Issue Price

(A) Comparison of market prices of the Shares

The issue price of each New Share will be at HK$7.00, which was determined after arm's length negotiation between the Company and Digital China with reference to, among other things, the market price of the Shares. The Issue Price represents:

(i) a premium of approximately 19.05% over the closing price of HK$5.88 per Share as quoted on the Stock Exchange on the Latest Practicable Date

(ii) a premium of approximately 4.48% over the closing price of HK$6.70 per Share as quoted on the Stock Exchange on the last trading day before the signing of the Formal SPA (i.e. 19 May 2017) (the "**Last Trading Day**");

(iii) a premium of approximately 1.30% over the average closing price of approximately HK$6.91 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 0.57% over the average closing price of approximately HK$6.96 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 0.72% over the average closing price of approximately HK$6.95 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

(vi) a premium of approximately 5.42% over the average closing price of approximately HK$6.64 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;

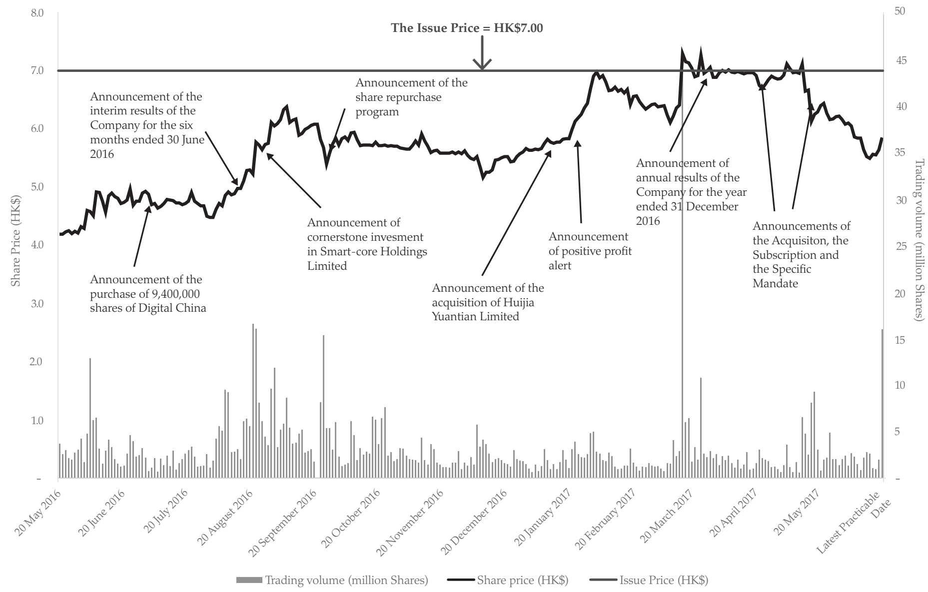
(vii) a premium of approximately 0.72% over the closing price of approximately HK$6.95 per Share as quoted on the Stock Exchange for the last trading day before the signing of the Framework Agreement (i.e. 24 April 2017); and

(viii) a premium of approximately 107.1% over the NAV per Share attributable to the Shareholders as at 31 December 2016 of approximately HK$3.38, which is calculated based on the NAV attributable to the Shareholders as at 31 December 2016 of approximately RMB2,988.8 million divided by the total issued Shares as at the Latest Practicable Date of 1,002,050,853 and applying the Exchange Rate, for illustrative purpose.

We have discussed with the management of the Group and we noted that the Issue Price was determined with reference to, among others, the average Share price in the last 20 consecutive trading days prior to the date of the Framework Agreement.

(B) Historical Share price performance

Set out below is the movement of the closing prices and trading volume of the Shares from 20 May 2016, being one year prior to the publication of the Announcement on 19 May 2017 (the "**Announcement Day**"), to and including the Latest Practicable Date (the "**Share Price Review Period**"). As set out in the discussion below, the Company announced a number of developments during the Share Price Review Period which we consider to be crucial in shaping the market price of the Shares.



Source: Bloomberg and the website of the Stock Exchange

During the Share Price Review Period, the Company's Share price traded at an average closing price of HK$5.83. To highlight, its Share price demonstrated positive sentiment in its overall performance as it traded with a range of HK$4.21 to HK7.33 during the Share Price Review Period. In particular, the Share price experienced a strong upward trend following the announcement of the entering into a share purchase agreement in relation to the purchase of 9.4 million shares in Digital China on 5 July 2016 and the announcement of the interim results of the Company for the six months ended 30 June 2016 on 16 August 2016. The Share price continued to trade high until it reached HK$6.36 on 5 September 2016 and the Share price began to drop until the announcement of the Share repurchase program on 27 September 2016 which caused the Shares to trade flat with a range of HK$5.42 to HK$5.80 during the period from 27 September 2016 to 12 January 2017. Immediately following on to the next two weeks from the aforementioned period, the Company made announcements regarding the acquisition of Huijia Yuantian Limited and positive profit alert on 13 January 2017 and 23 January 2017, respectively, which formed a strong market sentiment and began to build up a gradual upward trend of the Share price. The Share price stabilised around HK$7.00 during most of the period between mid-May 2017 and the Announcement Day.

During the Share Price Review Period, 252 days out of 269 trading days Shares closed at or below the Issue Price. As mentioned above, the average closing price for the Share Price Review Period was approximately HK$5.83, representing a discount of approximately 16.71% to the Issue Price. We are of the view that the relevant major events mentioned above should have been reflected in the Share price, and hence, we consider that Issue Price to be in favour to the Independent Shareholders.

In view of (i) the Issue Price represents a premium of approximately 4.5% over the closing price on the Last Trading Day and a premium of approximately 5.4% over the average closing price for the 90 consecutive trading days up to and including the Last Trading Day; and (ii) the Share price closed at or below the Issue Price in 252 out of 269 trading days during the Share Price Review Period, we consider the Issue Price to be fair and reasonable.

9. Financial effects of the Acquisition on the Group

(A) Earnings

Upon the Purchaser obtaining control through the acquisition(s) of the Sale Shares in one batch or in stages, Chongqing Micro-Credit would become an indirectly-owned subsidiary of the Company. Upon completion of the acquisition of the entire Sale Shares, Chongqing Micro-Credit will become an indirect wholly-owned subsidiary of the Company and the financial results (including the financial performance and financial position) of Chongqing Micro-Credit will be consolidated into the Group's financial statements. For information purpose, in respect of financial performance, the Company recorded consolidated net profit attributable to shareholders of approximately RMB181.8 million and Chongqing Micro-Credit recorded consolidated net profit attributable to shareholders of approximately RMB69.3 million for the year ended 31 December 2016. Independent Shareholders should also be aware as a result of the recognitions of the intangible assets acquired and goodwill arising from the Acquisition, as will be explained in the following sub-section, the Enlarged Group will be subject to additional amortisation expenses of the intangible assets acquired and impairment of goodwill, if any, in accordance with the Group's accounting policies.

Furthermore, based on the audited financial results of Chongqing Micro-Credit as set out in the accountant's report of Chongqing Micro-Credit in Appendix II to the Circular, Chongqing Micro-Credit recorded net interest income of approximately RMB9.7 million, RMB112.9 million and RMB197.8 million, and profit attributable to shareholders of Chongqing Micro-Credit of approximately RMB2.0 million, RMB28.8 million and RMB69.3 million for the three years ended 31 December 2014, 2015 and 2016 respectively. In view of the favourable historical financial performance of Chongqing Micro-Credit, the Acquisition could potentially enhance the income stream and profitability of the Group upon consolidation of the financial results of Chongqing Micro-Credit into the consolidated financial statements of the Group.

(B) Assets and liabilities

We refer to the equity attributable to the Shareholders and pro forma net asset value as at 31 December 2016, including on a per Share basis, of the Group and the Enlarged Group respectively with reference to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular.

Upon Completion, Chongqing Micro-Credit will cease to be accounted for as an associate of the Company using equity method and it will become a wholly-owned subsidiary of the Company and, accordingly, all assets and liabilities of Chongqing Micro-Credit will be consolidated into the Group.

As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming Completion takes place on 31 December 2016, the Enlarged Group's pro forma net assets position as at 31 December 2016 would increase by approximately 37.5% from approximately RMB3,268.1 million to approximately RMB4,495.2 million. The increase was mainly due to (i) consolidation of all the assets and liabilities of Chongqing Micro-Credit of approximately RMB1,100.2 million as at 31 December 2016; (ii) deconsolidation of the associate interest of approximately RMB440.3 million, being the 40% equity interest in Chongqing Micro-Credit originally held by the Group; (iii) the recognition of pro forma fair value adjustments to intangible assets (being the microfinance licence and other intangible assets held by Chongqing Micro-Credit) with an aggregate amount of approximately RMB719.5 million as at 31 December 2016; (iv) the recognition of the goodwill arising from the Acquisition of approximately RMB31.8 million; and (v) offset by (a) the deferred tax liabilities relating to the pro forma fair value adjustments to intangible assets which amounted to approximately RMB179.8 million and (b) professional fees associated with the Acquisition of approximately RMB4.3 million.

As an illustration, if Chongqing Micro-Credit had been 100% owned by the Group as at 31 December 2016, the NAV per Share of the Enlarged Group would have increased as follows:

	RMB million
NAV of the Enlarged Group as at 31 December 2016	4,495.2
Deduct: non-controlling interest	(279.4)
Illustrative adjusted NAV attributable to the Shareholders of the Enlarged Group as at 31 December 2016	4,215.8
Illustrative adjusted NAV per Share immediately after Completion, based on the enlarged share capital of approximately 1,177.3 million Shares	RMB3.58
2016 audited NAV per Share immediately before Completion, based on the NAV attributable to the Shareholders as at 31 December 2016 of approximately RMB2,988.8 million and the issued share capital as at the Latest Practicable Date of approximately 1,002.1 million Shares	RMB2.98
Increase	20.1%

The actual impact on the assets and liabilities of the Enlarged Group will be subject to change as such amount will be calculated based on the fair value of the New Shares and the carrying values of assets and liabilities of Chongqing Micro-Credit as of the date on which Completion takes place.

(C) Gearing and liquidity

As at 31 December 2016, the Group's net debt position was approximately RMB574.7 million, representing total bank and other borrowings of approximately RMB883.5 million and the liabilities portion of the convertible bonds issued by the Company of approximately RMB654.7 million minus the cash and cash equivalents of approximately RMB963.5 million. The gearing ratio of the Group as at 31 December 2016 was approximately 15.0%, being abovementioned net debt position divided by the aggregated sum of such net debt position and the NAV of the Group of approximately RMB3,842.8 million.

Assuming Completion takes place on 31 December 2016, the Enlarged Group's net debt would increase by approximately 84.4% from approximately RMB574.7 million to approximately RMB1,059.9 million. The increase was mainly due to (i) the total bank and other borrowings of approximately RMB491.9 million as owed by Chongqing Micro-Credit as at 31 December 2016; minus (ii) the cash and cash equivalents of approximately RMB6.6 million held by Chongqing Micro-Credit as at 31 December 2016. The pro forma gearing ratio of the Enlarged Group would increase from approximately 15.0% to approximately 19.1%.

As set out in the working capital statement in Appendix I of the Circular, the Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the internal resources, the expected Completion and banking facilities available to the Enlarged Group, the Enlarged Group will have sufficient working capital to satisfy its present requirements for at least twelve months from the date of the Circular. In addition, as the Consideration of approximately RMB1,083.6 million will be paid by the Purchaser to the Vendor and HK$ equivalent of such amount will be payable by Digital China to subscribe for the 175,285,714 New Shares at the issue price of HK$7.0 per Share in accordance with the terms of the Formal SPA, the negative impact to the Enlarged Group's working capital can be minimised.

As at 31 December 2016, despite a sizeable net assets position, the Group had net current assets (calculated by total current assets minus total current liabilities) of approximately RMB41.3 million. Assuming Completion takes place on 31 December 2016 and after taking into account Chongqing Micro-Credit's net current assets of approximately RMB883.7 million as at 31 December 2016 and the accruals of professional fees associated with the Acquisition of approximately RMB4.3 million, the Enlarged Group's net current assets would be increased to approximately RMB920.7 million, which will be a significant improvement on the Enlarged Group's working capital.

10. Specific Mandate

The New Shares represent approximately:

(i) 17.49% of the total number of issued Shares of the Company as at the Latest Practicable Date; and

(ii) 14.89% of the total number of issued Shares of the Company as enlarged by the allotment and issue of the New Shares (assuming there is no change in the issued share capital of the Company other than the issue of the New Shares from the Latest Practicable Date up to the date of Completion).

The New Shares of 175,285,714 Shares will be issued and allotted pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM. The New Shares, when issued, allotted and fully paid, will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of issue and allotment of the New Shares.

Based on the terms of the Formal SPA, we are given to understand that the Specific Mandate will be valid until the earlier of the Completion or the date falling the first anniversary of the date of the Formal SPA.

11. Effects on shareholding structure of the Company

Details of the shareholding structure of the Company as at the Latest Practicable Date and upon issuance and allotment of the New Shares (assuming there is no change in the issued share capital of the Company other than the issue of the New Shares from the Latest Practicable Date up to the date of Completion) are set out below:

	As at the Latest Practicable Date		Immediately after Completion	
	Number of Shares	Approximate percentage of shareholding	Number of Shares	Approximate percentage of shareholding
Directors and their associate(s):				
Guo Jiang and his spouse	127,908,771	12.76%	127,908,771	10.86%
Guo Fansheng *(Note 1)*	57,749,015	5.76%	57,749,015	4.91%
Liu Jun	40,000,000	3.99%	40,000,000	3.40%
Li Jianguang *(Note 2)*	32,000,384	3.19%	32,000,384	2.72%
Lee Wee Ong	18,350,672	1.83%	18,350,672	1.56%
Substantial Shareholders:				
Digital China and its associates *(Note 3)*	166,029,107	16.57%	341,314,821	28.99%
Public	560,012,904	55.89%	560,012,904	47.57%
Total	**1,002,050,853**	**100.00%**	**1,177,336,567**	**100.00%**

Notes:

1. Such interest in the Company comprises: (a) 35,000,000 Shares held by Mr. Guo Fansheng; and (b) 22,749,015 Shares held by a trustee of a trust of which Mr. Guo Fansheng is a beneficiary.

2. Holding through Callister Trading Limited, a company wholly owned by Mr. Li Jianguang.

3. Holding through Talent Gain Developments Limited and Unique Golden Limited. Unique Golden Limited is wholly and beneficially owned by Talent Gain Developments Limited, which in turn is wholly and beneficially owned by Digital China (BVI) Limited and indirectly wholly and beneficially owned by Digital China.

As shown in the table above, the shareholding of the existing public Shareholders in the Company will decrease from approximately 55.89% to approximately 47.57% immediately after Completion (representing a dilution by approximately 8.32%). Digital China and its associates will become the Company's single largest substantial Shareholder upon Completion. Although the shareholding interest of the existing public Shareholders will be diluted, having taken into account, among others, (i) the growth potential and prospects of Chongqing Micro-Credit; (ii) the benefits which are expected to be brought forth by the Acquisition; (iii) the fairness and reasonableness of the Consideration; (iv) the fairness and reasonableness of the Issue Price; and (v) the generally positive financial effects to the Group as discussed in the previous section, we are of the opinion that the dilution effect on shareholding of the existing public Shareholders to be acceptable.

DISCUSSION AND ANALYSIS

The Group already has a 40.0% interest in Chongqing Micro-Credit through a joint venture capital contribution in 2014. Chongqing Micro-Credit is accounted for as an associate of the Company and contributed approximately RMB27.7 million (i.e. 40% of the profit after taxation attributable to shareholders of Chongqing Micro-Credit) to the consolidated net profit of the Group for the year ended 31 December 2016.

Though currently a relative small contributor to the Group's revenue and results, the financial services segment, which was mainly represented by Chongqing Micro-Credit, has a rising prominence in the Group. The Company considers this segment to be a "lubricant" to help customers to complete B2B transactions while bring better prospect in future profits for the Group. The Group is building up the B2B ecosystem with the financial services segment as a major constituent. The Acquisition will enhance the development and expansion potential of the Group's financial services segment by providing more comprehensive services to SMEs in respects of supply chain and transaction funds etc. Through the Acquisition, the Company is also expecting to benefit from the enhanced financial services segment by a smoother executive decision-making process and an absolute control in the daily operation activities of Chongqing Micro-Credit.

Chongqing Micro-Credit achieved impressive growth in net interest income and net profits, with net interest income of approximately RMB9.7 million, RMB104.3 million and RMB155.6 million, and profit attributable to shareholders of Chongqing Micro-Credit of approximately RMB2.0 million, RMB28.8 million and RMB69.3 million for the three years ended 31 December 2014, 2015 and 2016 respectively. In view of the favourable historical financial performance of Chongqing Micro-Credit, the Acquisition could potentially enhance the income stream and profitability of the Group upon consolidation of the financial results of Chongqing Micro-Credit into the consolidated financial statements of the Group.

We have reviewed the Valuation Report and discussed with the independent professional valuer, Access Partner, regarding the independent valuation on the 60% equity interest in Chongqing Micro-Credit as at 31 March 2017. We note that the Valuation was carried out using the market approach with an appraised value of approximately RMB1,100.0 million compared to the Consideration of approximately RMB1,083.6 million, which represented a discount of approximately 1.5% to the appraised value. Apart from reviewing the Valuation, we have performed our own review of the Consideration based on the Comparable Companies. The Consideration of approximately RMB1,083.6 million for a 60% stake in Chongqing Micro-Credit implies a P/B Multiple, P/E Multiple, and PEG Multiple of approximately 1.64 times, 26.06 times and 0.19 times respectively. The respective implied P/E Multiple and P/B Multiple are within range and are close to the averages of the P/E Multiple and P/B Multiple of the Comparable Companies. The implied PEG Multiple of the Consideration of approximately 0.19 times is significantly lower than that of the Comparable Companies' average of approximately 0.59 times and it also sits outside the Comparable Companies' lower bound of approximately 0.28 times. Such results were due to Chongqing Micro-Credit's significant build-up of net profits in 2016.

Assuming the Purchaser would be paying the whole Consideration, a total of 175,285,714 New Shares shall be subscribed by Digital China or its designated wholly-owned subsidiary at the Issue Price of HK$7.00. The Issue Price represents a premium of approximately 4.5% over the closing price on the Last Trading Day and a premium of approximately 5.4% over the average closing price for the 90 consecutive trading days up to and including the Last Trading Day. The Share price closed at or below the Issue Price in 252 out of 269 trading days during the Share Price Review Period.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, the Acquisition and the Subscription will give rise to goodwill of approximately RMB31.8 million. The Enlarged Group's pro forma net assets as at 31 December 2016 would increase by approximately 37.5% to approximately RMB4,495.2 million and the Enlarged Group's illustrative adjusted NAV per Share as at 31 December 2016 would increase from approximately RMB2.98 to approximately RMB3.58 due to the issuance of the New Shares. Although the pro forma gearing ratio of the Enlarged Group, will be increased from approximately 15.0% to approximately 19.1%, the Acquisition and the Subscription are also expected to bring about significant improvement to the Enlarged Group's net current assets.

The shareholding of the existing public Shareholders in the Company will decrease from approximately 55.89% to approximately 47.57% immediately after Completion (representing a dilution by approximately 8.32%). In view of the above positive factors highlighted, we are of the opinion that the dilution effect on shareholding of the existing public Shareholders to be acceptable.

OPINION AND RECOMMENDATION

Based on the abovementioned principal factors and reasons, we consider that the Formal SPA and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We are also of view that the terms of the Formal SPA and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions approving the Formal SPA and the transactions contemplated thereunder at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Danny Cheng
Director

I. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 are disclosed in the annual reports of the Company for the years ended 31 December 2014, 2015 and 2016, respectively. Together with the relevant notes thereto are disclosed in the following documents which have been published and are available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.hc360.com):

- The Annual Report 2014 of the Company for the year ended 31 December 2014 published on 10 April 2015 (pages 87 to 196) (available on: http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0410/LTN201504101036.pdf)

- The Annual Report 2015 of the Company for the year ended 31 December 2015 published on 21 April 2016 (pages 95 to 228) (available on: http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0421/LTN201604211326.pdf)

- The Annual Report 2016 of the Company for the year ended 31 December 2016 published on 24 April 2017 (pages 124 to 264) (available on: http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0424/LTN20170424075.pdf)

II. INDEBTEDNESS STATEMENT

As at the close of business on 30 April 2017 being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this circular, the Enlarged Group had the following outstanding indebtedness:

The Group

(a) bank borrowings of approximately RMB842,236,000 of which, the current portion of RMB794,860,000 will mature in next twelve months, and the remaining portion of RMB47,376,000 will mature between one to two years. Out of the total bank borrowings, bank borrowings of RMB160,000,000 are secured by certain properties and land use rights; bank borrowings of RMB440,000,000 are guaranteed by an associate company of the Group; and bank borrowings of RMB237,376,000 are guaranteed by a subsidiary and an associate company of the Group;

(b) unsecured and unguaranteed convertible bonds with carrying amount of approximately RMB664,412,000 with a total principal amount of HKD780,000,000 (equivalent to approximately RMB615,342,000);

(c) obligation under secured finance leases of approximately RMB70,000 (the finance leases are unguaranteed and have remaining term of less than one year. The carrying amount of assets under the finance leases is RMB1,421,000);

(d) other borrowing due to a non-controlling owner of a subsidiary of the Group of approximately RMB32,165,000 of which, RMB9,538,000 will mature in the next twelve months, RMB20,166,000 will mature between one to two years and RMB2,461,000 will mature between two to five years. The borrowings was unsecured and unguaranteed; and

(e) financial guarantees of approximately RMB345,504,000 provided to banks for mortgage loans made by the banks to the purchasers of property units sold by the Group.

Chongqing Micro-Credit (the "Target Company")

(a) loan due to a shareholder by the Target Company amounted to RMB130,000,000 which is unsecured and repayable on demand.

(b) loan due to a third party by the Target Company amounted to RMB255,000,000, which was provided by an independent asset management company for operational purpose. The loan was pledged on certain loans receivable of the Target Company which amounted to RMB341,671,000.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Enlarged Group did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as at close of business on 30 April 2017.

III. WORKING CAPITAL SUFFICIENCY

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

IV. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2016, being the date on which the latest published audited financial statements of the Company were made up.

V. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Since being listed on the Stock Exchange in 2003 and the transfer of listing to the Main Board of the Stock Exchange in 2014, the Company has transformed from a traditional media company to a B2B online company. A vertical in-depth services model is clearly formed. The Group has six business segments, namely: (i) on-line services, (ii) trade catalogues and yellow page directories, (iii) seminars and other services, (iv) online to offline (O2O) business exhibition centre, (v) anti-counterfeiting products and services, and (vi) financing services.

In 2016, approximately 48.5% of the revenue of the Group was generated from internet services, approximately 43.0% of the revenue from O2O business exhibition center, approximately 4.7% from paper media, seminars and other activities, approximately 0.4% from finance cluster and approximately 3.4% from anti-counterfeiting products and services. Although only 0.4% of revenue was generated from finance cluster in 2016, the Group is building up, with great effort, the B2B ecosystem with the financial service cluster as a major constituent. The Board is always committed to seeking opportunities for performance growth, with an aim to strengthen the existing business segments whenever the right opportunities arise.

Chongqing Micro-Credit is principally engaged in developing and operating of the microcredit internet financing business in the PRC and developing micro-finance products such as trade finance, personal credit and guaranteed loans. Following the Acquisition, it is expected that Chongqing Micro-Credit will have a better synergistic effect with the Group's finance leasing and newly established factoring business and further improve and strengthen the finance cluster of the Group.

The Board believes that the Acquisition would enable the Group to build a more complete B2B ecosystem in the PRC and greatly enhance the financial performance of the Group. In the future, the Board will continue to make the best efforts to build a B2B e-commerce platform for China's domestic trading.

The following is the text of a report set out on pages II-1 to II-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HC INTERNATIONAL, INC.

INTRODUCTION

We report on the historical financial information of Chongqing Digital China Huicong Micro Credit Co., Limited (the "**Target Company**") set out on pages II-3 to II-29, which comprises the statements of financial position as at 31 December 2014, 2015 and 2016, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the period from 13 May 2014 (date of establishment) to 31 December 2014 and each of the years ended 31 December 2015 and 2016 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-3 to II-29 forms an integral part of this report, which has been prepared for inclusion in the circular of HC International, Inc. (the "**Company**") dated 27 June 2017 (the "**Circular**") in connection with the proposed acquisition of the remaining equity interests in the Target Company by the Company.

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Company for the Track Record Period ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Target Company for the Track Record Period. The directors of the Target Company are responsible for the preparation of the Target Company's previously issued financial statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of Target Company's financial statements that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 December 2014, 2015 and 2016 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

ADJUSTMENTS

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
27 June 2017

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

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

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Period from 13 May 2014 (date of establishment) to 31 December 2014 RMB'000	Year ended 31 December 2015 RMB'000	Year ended 31 December 2016 RMB'000
Interest income	15	9,713	112,857	197,759
Interest expense	15	–	(8,576)	(42,206)
Interest income, net		9,713	104,281	155,553
Selling and marketing expenses	17	(436)	(20,923)	(6,373)
General and administrative expenses	17	(8,599)	(46,845)	(58,239)
Operating profit		678	36,513	90,941
Finance income	16	2,035	1,971	1,567
Profit before taxation		2,713	38,484	92,508
Income tax expense	19	(664)	(9,667)	(23,197)
Profit after taxation and total comprehensive income attributable to equity holders of the Target Company		2,049	28,817	69,311

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2014	2015	2016
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Equipment	7	50	110	101
Loans receivable	9	–	57,366	400,373
		50	57,476	400,474
Current assets				
Loans receivable	9	655,265	1,325,868	1,213,070
Deposits and other receivables	10	2,440	6,413	8,475
Cash and cash equivalents	8	20,613	33,290	6,629
		678,318	1,365,571	1,228,174
Total assets		678,368	1,423,047	1,628,648
Equity				
Share capital	11	675,000	1,000,000	1,000,000
Reserves		205	3,087	10,018
Retained earnings		1,844	27,779	90,159
Total equity		677,049	1,030,866	1,100,177
Liabilities				
Non-current liabilities				
Borrowings	12	–	–	184,000
Current liabilities				
Accruals and other payables	13	300	16,516	29,058
Borrowings	12	–	370,000	307,876
Other taxes payables	14	355	789	944
Income tax payables	14	664	4,876	6,593
		1,319	392,181	344,471
Total liabilities		1,319	392,181	528,471
Total liabilities and equity		678,368	1,423,047	1,628,648

STATEMENTS OF CHANGES IN EQUITY

	Share capital RMB'000	Statutory Reserve (Note a) RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 13 May 2014 (date of establishment)	–	–	–	–
Comprehensive income				
Profit after taxation and total comprehensive income for the period	–	–	2,049	2,049
	–	–	2,049	2,049
Transaction with owners				
Capital injection from shareholders	675,000	–	–	675,000
Appropriation to statutory reserve	–	205	(205)	–
	675,000	205	(205)	675,000
Balance at 31 December 2014 and 1 January 2015	675,000	205	1,844	677,049
Comprehensive income				
Profit after taxation and total comprehensive income for the year	–	–	28,817	28,817
	–	–	28,817	28,817
Transaction with owners				
Capital injection from shareholders	325,000	–	–	325,000
Appropriation to statutory reserve	–	2,882	(2,882)	–
	325,000	2,882	(2,882)	325,000
Balance at 31 December 2015 and 1 January 2016	1,000,000	3,087	27,779	1,030,866
Comprehensive income				
Profit after taxation and total comprehensive income for the year	–	–	69,311	69,311
	–	–	69,311	69,311
Transaction with owners				
Appropriation to statutory reserve	–	6,931	(6,931)	–
	–	6,931	(6,931)	–
Balance at 31 December 2016	1,000,000	10,018	90,159	1,100,177

Note a:

In accordance with the Law of the PRC on Enterprises with Foreign Investments , foreign investment enterprises in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by the company to their respective statutory reserves. The percentage of net profit to be appropriated to the statutory reserves is not less than 10% of the net profit. When the balance of the statutory reserves reaches 50% of the registered capital, such transfer needs not be made.

STATEMENTS OF CASH FLOWS

	Period from 13 May 2014 (date of establishment) to 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Cash flows from operating activities			
Profit before taxation	2,713	38,484	92,508
Adjustments for:			
Provision for impairment of loans receivable	6,618	15,172	23,439
Depreciation expenses	1	16	25
Interest income	(2,035)	(1,971)	(1,567)
Interest expense	–	8,576	42,206
Operating profit before changes in working capital	7,297	60,277	156,611
Changes in working capital:			
Other receivables	(2,440)	(3,973)	(2,062)
Loans receivable	(661,883)	(743,140)	(253,648)
Accruals and other payables	655	15,222	13,255
Cash used in operating activities	(656,371)	(671,614)	(85,844)
Interest received	2,035	1,971	1,567
Income tax paid	–	(5,455)	(21,480)
Interest paid to shareholders' loans	–	(7,149)	(27,781)
Interest paid to loans from third parties	–	–	(14,983)
Net cash used in operating activities	(654,336)	(682,247)	(148,521)

	Period from 13 May 2014 (date of establishment) to 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Cash flows from investing activities			
Additions of equipment	(51)	(76)	(16)
Net cash used in investing activities	(51)	(76)	(16)
Cash flows from financing activities			
Proceeds from issuance of shares	675,000	325,000	–
Proceeds from loans from shareholders	–	420,000	180,000
Repayment of loans to shareholders	–	(50,000)	(370,000)
Proceeds from loans from third parties	–	–	474,500
Repayment of loans to third parties	–	–	(162,624)
Net cash generated from financing activities	675,000	695,000	121,876
Net increase/(decrease) in cash and cash equivalents	20,613	12,677	(26,661)
Balance at the beginning of the period/year	–	20,613	33,290
Balance at the end of the period/year	20,613	33,290	6,629

1. GENERAL INFORMATION

Chongqing Digital China Huicong Micro-Credit Co., Ltd (the "**Target Company**") is a limited liability company established in the PRC on 13 May 2014. The registered office is Room 1, 8/F, Building A, Beiqu Xinqu Ruanjianyuan, 26 Honghuxilu, Chongqing. The principal activity of the Target Company is developing and operating of the microcredit internet financing business in the PRC and developing micro-finance products such as trade finance, personal credit and guaranteed loans. The Target Company's operations are headquartered in Beijing, the PRC.

As of 31 December 2016, Target Company's major shareholders include China Investment Co., Ltd ("**Digital China Investment**"), a subsidiary of Digital China Holdings Limited, which is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (Stock Code:861), which holds 60% equity interest of the Target Company and Hong Kong Huicong International Group Limited ("**HC Huicong**"), a wholly-owned subsidiary of the Company, which holds 40% equity interests of the Target Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with HKFRSs issued by HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Target Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 4 below.

2.2 Changes in accounting policy and disclosures

New and amended standards that have been issued but are not effective for the financial year beginning after 1 January 2016 and have not been early adopted

		Effective for accounting period beginning on or after
Amendments to HKAS 7	Statement of cash flows	1 January 2017
Amendments to HKAS 12	Income taxes	1 January 2017
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 15	Clarifications to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019

The Target Company has already commenced an assessment of the impact of these new HKFRSs and set out below are those that are expected to have impact on the Target Company's accounting policies:

HKFRS 9 "Financial instrument" addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in other comprehensive income, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The Target Company considers that there will be no material adverse change in the credit risks in respect of the Target Company's future financial assets and the adoption of the new expected credit losses model under HKFRS 9 will not have significant impact on its financial performance and position. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

HKFRS 15 "Revenue from contracts with customers" replaces the previous revenue standards HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. The core principal is that a Target Company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under HKFRS 15, an entity normally recognises revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligation are identified. The Target Company considers that there will be no material adverse change in respect of the Target Company's future revenue recognition. The new standard is not expected to apply until the financial year of 2018.

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Target Company's operating leases. As at the reporting date, the Target Company has non-cancellable operating lease commitments of RMB2,278,000, see note 21. However, the Target Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16. The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Target Company does not intend to adopt the standard before its effective date.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who review the Target Company internal report in order to assess performance and allocate resources, has been identified as the executive directors who make strategic decisions.

2.4 Transaction and balances in foreign currency

The financial statements are presented in Renminbi (RMB), which is the functional currency of the Target Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Foreign exchange gains and losses that relate to loans receivables are presented in the profit or loss within 'general and administrative expenses'.

2.5 Equipment

Equipment, comprising computer and telecommunications equipment, are stated at cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation of computer and telecommunications equipment is calculated using the straight line method to allocate their cost to their residual values over 5 years.

The assets' residual values and useful lifes are reviewed, and adjusted if appropriate, at each statement of financial position date.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within general and administrative expenses in the statement of comprehensive income.

2.6 Impairment of non-financial assets

Equipments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating-units).

2.7 Financial assets

Classification

The Target Company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of each relevant period. These are classified as non-current assets. Target Company's loans and receivables comprise "Loans receivable", "Deposits and other receivables" and "Cash and cash equivalents" in the statement of financial position.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Target Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Target Company or the counterparty.

2.8 Impairment of financial assets – Assets carried at amortised cost

The Target Company assesses at the end of each Track Record Period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing insignificant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loans has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

2.9 Cash and cash equivalent

Cash and cash equivalents include cash on hand and deposits held at call with banks.

2.10 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Accruals and other payables

Accruals and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accruals and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.13 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.14 Employee benefits

Retirement benefit costs

The full-time employees of the Target Company are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas.

The relevant government agencies are responsible for the pension liabilities to these retired employees. The Target Company contributes on a monthly basis to these pension plans. Under these plans, the Target Company has no obligation for post-retirement benefits beyond the contributions made.

Contributions to these plans are expensed as incurred.

2.15 Provision

Provisions are recognised when the Target Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in profit and loss using the effective interest method, except the interest from bank deposits are recognised within "finance income" in profit and loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Target Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and payments paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.17 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit and loss on a straight-line basis over the period of the lease.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factor

The Target Company's activities expose it to a variety of financial risks: credit risk, foreign exchange risk and liquidity risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance department headed by the General Manager of the Target Company. The finance department identifies and evaluates financial risks in close co-operation with the operating units to cope with overall risk management as well as specific areas such as credit risk, foreign exchange and liquidity risk.

(a) Credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations. It arises primarily from the micro-credit business.

Credit risk arising from micro-credit business

The credit risk mainly arises from micro-credit business. The Target Company has established relevant mechanism to cover credit risk in key operational phases of micro-credit business, including pre-lending evaluations, credit approval, and post-lending monitoring. The Target Company conducts customer acceptance and due diligence by operating department and risk management department in the pre-lending evaluations. In the credit approval phase, all loans applications are subject to the assessment and approval of the Department Manager, General Manager and Risk Assessment Committee, depending on the amount and nature of the loans. During the post-lending monitoring, the Target Company conducts on-site inspections and off-site inquiries to detect potential risks by evaluating various aspects, including but not limited to the customer's operational and financial conditions, status of collaterals and other sources of repayment.

In accordance with the regulations issued by the local regulatory authority, Chongqing financial Affairs Office (重慶市金融工作辦公室), the Target Company has established a loan credit risk classification system based on the type of collateral and credit period, and performs credit risk management based on loan classification in one of five categories. The Target Company classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss. Loans classified as substandard, doubtful and loss are regarded as nonperforming loans. The primary factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which reflect borrowers' repayment ability, repayment record and intention, projected profitability, bank guarantees or collateral and legal responsibility of repayment. The allowance for impairment losses is assessed collectively or individually, as appropriate.

The core definitions of the five categories of loans receivables are set out below:

Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special-mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factor.

Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measure or resorting to all necessary legal procedures.

The balance of each categories of loans receivable (excluding the corresponding interest receivables) as at the date of Track Record Period is as follows:

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Normal	661,883	1,352,640	1,596,498
Special-mention	–	32,624	9,240
Substandard	–	14,236	20,567
Doubtful	–	5,524	23,878
Loss	–	–	8,489
Total	661,883	1,405,024	1,658,672

Impairment and provisioning policies

Individual assessment

All loans receivable are individually reviewed for objective evidence of impairment and classified based on a five- tier classification system. Loans that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or receivables has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected pay out should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of the reporting period, unless unforeseen circumstances require more careful attention.

Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

Collateral and other credit enhancements

The amount and type of collateral required depends on the assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The collateral obtained by the Target Company mainly consists of mortgages on land use rights, building ownership rights or equipment and pledge on shares. All collateral is registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of the collateral regularly.

Although collateral can mitigate credit risk to a certain extent, the Target Company mostly grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flows, instead of the value of collateral. The necessity of collateral is dependent on the nature of the loan. In the event of default, the Company might sell the collateral for repayment. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Please refer to Note 9 for individually assessed and collectively assessed impairment allowances arising from unsecured, guaranteed loans and unsecured loans.

Other credit risk

Credit risk arises from cash and cash equivalents, as well as other financial assets. If counterparties are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated by taking into account its financial position, past experience and other factors. The book value of financial instrument represents the maximum of credit exposure.

(b) Foreign exchange risk

The Target Company's exposure to the risk in foreign exchange relates primarily to its loans receivable denominated in Hong Kong Dollar which had been settled during the year. As at the year ended 31 December 2015. The Target Company does not have material exposure on foreign exchange risk as the Target Company has no other foreign currency denominated assets and liabilities.

(c) Interest rate risk

The Target Company's exposure to the risk in interest rates relates primarily to its cash at banks, loans receivable and interest-bearing borrowings. The majority of the Target Company's loans receivable are fixed rate. They are mostly influenced by the mismatch of repricing day of interest-generating assets and interest-bearing liabilities. The Target Company does not use derivative financial instruments to manage its interest rate risk.

(d) Liquidity risk

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

As at 31 December 2014, 2015 and 2016, the cash and cash equivalents of the Target Company approximate RMB20,613,000, RMB33,290,000 and RMB6,629,000, respectively.

The table below analyses the Target Company's financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 year and 2 years**	**Between 2 and 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2016				
Accruals and other payables	29,058	–	–	29,058
Loans from shareholders	184,171	–	–	184,171
Loans from third parties	140,414	11,060	195,060	346,534
	353,643	11,060	195,060	559,763
At 31 December 2015				
Accruals and other payables	16,516	–	–	16,516
Loans from shareholders	387,324	–	–	387,324
Loans from third parties	–	–	–	–
	403,840	–	–	403,840
At 31 December 2014				
Accruals and other payables	300	–	–	300
Loans from shareholders	–	–	–	–
Loans from third parties	–	–	–	–
	300	–	–	300

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Target Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Target Company monitors capital on the basis of the gearing ratio. Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including those from shareholders and third parties) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt. Accordingly, the gearing ratios at 31 December 2014, 2015 and 2016 were as follows:

	31 December 2014	**31 December 2015**	**31 December 2016**
	RMB'000	*RMB'000*	*RMB'000*
Loans from shareholders	–	370,000	180,000
Loans from third parties	–	–	311,876
Less: cash and cash equivalents	(20,613)	(33,290)	(6,629)
Net (cash)/debt	(20,613)	336,710	485,247
Total equity	677,049	1,030,866	1,100,117
Total capital and debt	656,436	1,367,576	1,585,364
Gearing ratio	N/A	24.6%	30.6%

3.3 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Target Company's financial assets mainly include cash and cash equivalents and loans receivable. The Target Company's financial liabilities mainly include interest-bearing borrowings.

The carrying value less impairment provision of the loans receivable are a reasonable approximately of the fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Target Company for similar financial instrument.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

Provision for impairment of receivables

Significant judgement is exercised in the assessment of the collectability of loans and other receivables from each counter party. In making its judgement, management considers a wide range of factors such as results of following-up procedures performed by customer relationship personnel, counter parties' payment record, creditability, nature of loans, underlying security and subsequent settlements.

5. FINANCIAL INSTRUMENTS BY CATEGORY

	31 December 2014	31 December 2015	31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Loans receivable	655,265	1,383,234	1,613,443
Deposits and other receivables	2,440	6,413	8,475
Cash and cash equivalents	20,613	33,290	6,629
Total	678,318	1,422,937	1,628,547
Financial liabilities			
Accruals and other payables	300	16,516	29,058
Loans from shareholders	–	370,000	180,000
Loans from third parties	–	–	311,876
Total	300	386,516	520,934

6. SEGMENT INFORMATION

During the Track Record Periods, most of the revenue is generated from the provision of micro-credit to small to medium enterprises ("**SMEs**"), microenterprises and entrepreneurial individuals in Beijing in PRC and also small portion from other major cities in PRC, such as Shanghai and Guangzhou. The Target Company's chief operating decision makers has been identified as the Board of Directors. The Directors focus on the operating results of the Target Company as a whole. Accordingly, no segment analysis or information about the products and service is presented.

7. EQUIPMENT

	Computer and telecommunication equipment
	RMB'000
Period from 13 May 2014 (date of establishment) to 31 December 2014	
Opening net book amount	–
Additions	51
Depreciation *(Note 17)*	(1)
Closing net book amount	50
At 31 December 2014	
Cost	51
Accumulated depreciation	(1)
Net book amount	50
Year ended 31 December 2015	
Opening net book amount	50
Additions	76
Depreciation *(Note 17)*	(16)
Closing net book amount	110
At 31 December 2015	
Cost	127
Accumulated depreciation	(17)
Net book amount	110
Year ended 31 December 2016	
Opening net book amount	110
Additions	16
Depreciation *(Note 17)*	(25)
Closing net book amount	101
At 31 December 2016	
Cost	143
Accumulated depreciation	(42)
Net book amount	101

The depreciation expenses are included in general and administrative expenses during Track Record Period.

8. CASH AND CASH EQUIVALENTS

	31 December 2014 *RMB'000*	31 December 2015 *RMB'000*	31 December 2016 *RMB'000*
Cash at banks	20,613	33,288	6,610
Cash on hand	–	2	19
	20,613	33,290	6,629

The cash and cash equivalents of the Target Company were mainly denominated in RMB and deposited with banks in the PRC. The conversion of the Renminbi denominated balance into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

9. LOANS RECEIVABLE

(a) Analysed by nature

	31 December 2014 *RMB'000*	31 December 2015 *RMB'000*	31 December 2016 *RMB'000*
Individual loans	225,163	452,635	1,052,796
Corporate loans	436,720	952,389	605,876
Loans receivable, gross	661,883	1,405,024	1,658,672
Less: allowance for impairment			
– Collectively assessed	(6,618)	(14,205)	(16,242)
– Individually assessed	–	(7,585)	(28,987)
Total allowance for impairment	(6,618)	(21,790)	(45,229)
Loans receivables, net	655,265	1,383,234	1,613,443
Less: Non-current portion	–	(57,366)	(400,373)
Current portion	655,265	1,325,868	1,213,070

For the year ended 31 December 2014, 2015 and 2016, the weighted average annual interest rate for the loans receivable were approximately 10.81%, 10.56% and 14.10%, respectively, and the outstanding loan receivables were RMB662 million, RMB1,405 million and RMB1,659 million as at 31 December 2014, 2015 and 2016, respectively.

(b) Analysed by type of collateral

	31 December 2014 *RMB'000*	31 December 2015 *RMB'000*	31 December 2016 *RMB'000*
Unsecured loans	619,583	1,154,045	512,534
Guaranteed loans	–	65,769	646,719
Collateralised loans	42,300	185,210	499,419
Loans receivable, gross	661,883	1,405,024	1,658,672
Less: allowance for impairment			
– Collectively assessed	(6,618)	(14,205)	(16,242)
– Individually assessed	–	(7,585)	(28,987)
Total allowance for impairment	(6,618)	(21,790)	(45,229)
Loans receivable, net	655,265	1,383,234	1,613,443

(c) Overdue loans analysed by type of collateral and overdue period

	As at 31 December 2014				
	Not overdue *RMB'000*	Overdue within 3 months (inclusive) *RMB'000*	Overdue more than 3 months to one year (inclusive) *RMB'000*	Overdue more than one year *RMB'000*	Total *RMB'000*
Unsecured loans	619,583	–	–	–	619,583
Guaranteed loans	–	–	–	–	–
Collateralised loans	42,300	–	–	–	42,300
Total	661,883	–	–	–	661,883

	As at 31 December 2015				
	Not overdue *RMB'000*	Overdue within 3 months (inclusive) *RMB'000*	Overdue more than 3 months to one year (inclusive) *RMB'000*	Overdue more than one year *RMB'000*	Total *RMB'000*
Unsecured loans	1,122,295	11,050	20,700	–	1,154,045
Guaranteed loans	64,949	786	34	–	65,769
Collateralised loans	126,360	41,100	17,750	–	185,210
Total	1,313,604	52,936	38,484	–	1,405,024

	As at 31 December 2016				
	Not overdue	Overdue within 3 months (inclusive)	Overdue more than 3 months to one year (inclusive)	Overdue more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured loans	509,130	1,025	929	1,450	512,534
Guaranteed loans	609,736	19,684	16,680	619	646,719
Collateralised loans	474,499	9,100	3,820	12,000	499,419
Total	1,593,365	29,809	21,429	14,069	1,658,672

Overdue loans represent loans receivable of which the whole or part of the principal or interest was overdue for one day or more. All amounts are shown as gross amount of overdue loans before any allowance for impairment losses.

(d) Movement of allowances for impairment losses

	Collectively assessed	Individually assessed	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 13 May 2014 (date of establishment)	–	–	–
Charge for the period *(Note 17)*	6,618	–	6,618
As at 31 December 2014	6,618	–	6,618
As at 1 January 2015	6,618	–	6,618
Charge for the year *(Note 17)*	7,587	7,585	15,172
As at 31 December 2015	14,205	7,585	21,790
As at 1 January 2016	14,205	7,585	21,790
Charge for the year *(Note 17)*	2,037	21,402	23,439
As at 31 December 2016	16,242	28,987	45,229

10. DEPOSITS AND OTHER RECEIVABLES

	31 December 2014	31 December 2015	31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Interest receivables	2,440	5,940	4,792
Deposits and other receivables	–	473	3,683
	2,440	6,413	8,475

11. ORDINARY SHARES, ISSUED AND FULLY PAID:

	Number of shares at RMB1 each	**Share capital** *RMB'000*
At 13 May 2014 (date of establishment)	–	–
Proceeds from issuance of shares	675,000,000	675,000
At 31 December 2014	675,000,000	675,000
At 1 January 2015	675,000,000	675,000
Proceeds from issuance of shares	325,000,000	325,000
At 31 December 2015 and 31 December 2016	1,000,000,000	1,000,000

12. BORROWINGS

	31 December 2014 *RMB'000*	**31 December 2015** *RMB'000*	**31 December 2016** *RMB'000*
Loans from shareholders	–	370,000	180,000
Loans from third parties	–	–	311,876
	–	370,000	491,876
Less: Non-current portion of loans from third parties	–	–	(184,000)
Current portion	–	370,000	307,876

Movements in borrowings is analysed as follows:

	Loans from shareholders *RMB'000*	**Loans from third parties** *RMB'000*	**Total** *RMB'000*
At 1 January 2015	–	–	–
Proceeds of new borrowings	420,000	–	420,000
Repayments of borrowings	(50,000)	–	(50,000)
At 31 December 2015 and 1 January 2016	370,000	–	370,000
Proceeds of new borrowings	180,000	474,500	654,500
Repayments of borrowings	(370,000)	(162,624)	(532,624)
At 31 December 2016	180,000	311,876	491,876

The loans from shareholders bear average interest rate per annum for the year ended 31 December 2014, 2015 and 2016 are nil, 6.9% and 8.0%, respectively. They are unsecured and repayable on demand. The loans were fully repaid subsequent to the year ended 31 December 2016.

As at 31 December 2014 and 2015, no loans was provided by third parties. As at 31 December 2016, the loans from third parties were provided by independent asset management companies and private equity fund for operational purpose. The loans from third parties bear average interest rate of 6.32 % per annum. Part of which amounting to RMB311,876,000 are secured by certain loans receivable amounting to RMB511,218,000.

The carrying amounts of borrowings approximate their fair values and denominated in RMB.

13. ACCRUALS AND OTHER PAYABLES

	31 December 2014	**31 December 2015**	**31 December 2016**
	RMB'000	*RMB'000*	*RMB'000*
Deposits received	300	11,924	18,365
Accrued expenses	–	1,427	1,395
Guarantee fee	–	3,085	9,190
Others	–	80	108
	300	16,516	29,058

14. INCOME TAX PAYABLES AND OTHER TAXES PAYABLES

	31 December 2014	**31 December 2015**	**31 December 2016**
	RMB'000	*RMB'000*	*RMB'000*
Income tax payable:			
PRC corporate income tax	664	4,876	6,593
Other taxes payables:			
Value-added tax	–	–	816
Business tax	211	667	–
Others	144	122	128
	355	789	944

15. INTEREST INCOME AND EXPENSE

	Period from 13 May 2014 (date of establishment) to 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Interest income:			
Loans receivable	9,713	112,857	197,759
Interest expense on:			
Loans from shareholders *(Note 22)*	–	(8,576)	(26,354)
Loans from third parties	–	–	(15,852)
	–	(8,576)	(42,206)
Interest income, net	9,713	104,281	155,553

16. FINANCE INCOME

	Period from 13 May2014 (date of establishment) to 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Interest from bank deposits	2,035	1,971	1,567

17. EXPENSES BY NATURE

	Period from 13 May 2014 (date of establishment) to 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Marketing expenses	436	20,923	6,373
Conference fee	352	239	990
Depreciation of equipment *(note 7)*	1	16	25
Employee benefits expense *(note 18)*	541	5,169	12,187
Entertainment expenses	28	405	607
Exchange gains	(1,331)	(1,878)	–
Office expenses	135	477	843
Operating lease payments	377	769	2,278
Other tax expenses	61	712	1,305
Professional and consultancy fee	187	14,883	11,277
Provision for the impairment loss on loans receivable *(note 9)*	6,618	15,172	23,439
Software maintenances fee	1,063	8,510	1,047
Training expenses	–	600	424
Travelling expenses	131	709	1,435
Other expenses	436	1,062	2,382
Total selling and marketing expenses and general and administrative expense	9,035	67,768	64,612

18. EMPLOYEE BENEFIT EXPENSES

	Period from 13 May 2014 (date of establishment) to 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Wages and salaries	402	3,675	9,040
Retirement benefits costs (a)	139	1,494	3,147
	541	5,169	12,187

Certain of the employee benefit expenses for the Track Record Periods were recharged by related companies of the Target Company, with the details of this related party transaction disclosed in Note 22.

(a) In accordance with the PRC regulations, the Target Company is required to make annual contributions to the state retirement plans calculated at 20% of the basic salaries of the employees and employers are required to contribute 8% of their basic salaries to the plans. The Target Company has no obligations for further pension payments or any post-retirement benefits beyond these annual contributions. The retirement benefits are paid directly from the plan assets to the retired employees and are calculated by reference to their monthly basic salaries at the date of retirement and periods of service rendered.

As at 31 December 2016, there were no forfeited contributions available to offset future retirement benefit obligations of the Target Company.

19. INCOME TAX EXPENSE

	Period from 13 May 2014 (date of establishment) to 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Current income tax expense			
– PRC Corporate Income Tax	664	9,667	23,197

The PRC corporate income tax represents taxation charge on assessable profits for the year at the rates of taxation prevailing in the city in the PRC which the Target Company operates. The applicable tax rate is 25%.

The tax on the Target Company's profit before tax from operations differs from the theoretical amount of 25% for the year ended 31 December 2014, 2015 and 2016 that would arise using the tax rate of the PRC as follows:

	Period from 13 May 2014 (date of establishment) to 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	2,713	38,484	92,508
Tax calculated at 25%	678	9,621	23,127
Income net taxable	(46)	–	–
Expenses not deductible for tax purpose	32	46	70
Income tax expense	664	9,667	23,197

20. CONTINGENT LIABILITIES

As at 31 December 2014, 2015 and 2016, there were no material contingent liabilities to the Target Company.

21. COMMITMENT

At the reporting date of each Track Record Period, the Target Company had future aggregate minimum lease payments under non-cancellable operating lease in respect of office are as follows:

	31 December 2014	31 December 2015	31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
Within one year	769	2,278	2,278

22. RELATED PARTY TRANSACTIONS

The Target Company is jointly controlled by Digital China Investment, a subsidiary of Digital China Holdings Limited, which holds 60% equity interest of the Target Company and HC Huicong, a wholly-owned subsidiary of the Company, which holds 40% equity interests of the Target Company.

Other than those transactions or balances disclosed elsewhere in the financial information, during the Track Record Period, the Target Company undertook the following material transactions with related parties in the normal course of its business:

	Period from 13 May 2014 (date of establishment) to 31 December 2014	**Year ended 31 December 2015**	**Year ended 31 December 2016**
	RMB'000	*RMB'000*	*RMB'000*
Interest expense on loan from:			
– Digital China Investment	–	4,696	13,761
– HC Huicong	–	3,880	12,593
	–	8,576	26,354
Recharge of administrative expenses by related companies *(note b)*			
– Employee benefits expense	446	4,083	3,363
– Operating leases payments	377	483	2,027
– Consultation fee	115	2,841	3,220
	938	7,407	8,610
	938	15,983	34,964

Notes:

(a) Interest expense is charged by the shareholders, Digital China Investment and HC International at fixed rate as agreed by both parties.

(b) Administrative expenses recharged by related companies included employee benefits, operating lease payment, and consultation services. These charges are determined on arm-length basis mutually agreed between the parties.

23. EVENTS AFTER THE RELEVANT FINANCIAL YEARS

As at the date on which the financial information is approved, there was no subsequent event that needs to be disclosed or adjusted by the Target Company.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2016 and up to the date of this report. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 December 2016.

Set out below is the management discussion and analysis of Chongqing Micro-Credit (the "**Target Company**"):

(i) Business and financial performance

The Target Company is a limited liability company established in the PRC on 13 May 2014. The principal activity of the Target Company is developing and operating of the microcredit internet financing business in the PRC and developing micro-finance products such as trade finance, personal credit and guaranteed loans. The Target Company's operations are headquartered in Beijing, PRC.

The management of the Target Company has determined that it only has one operating segment. For the period from 13 May 2014 to 31 December 2014 and the years ended 31 December 2015 and 2016, most of the revenue is generated from the provision of micro-credit to small to medium enterprises ("**SMEs**"), microenterprises and entrepreneurial individuals in Beijing in PRC and also small portion from other major cities in PRC, such as Shanghai and Guangzhou.

Set out below is the financial summary on the Target Company for the period from 13 May 2014 to 31 December 2014 and the years ended 31 December 2015 and 2016:

	Period from 13 May 2014 to 31 December 2014	**Year ended 31 December 2015**	**Year ended 31 December 2016**
	RMB'000	*RMB'000*	*RMB'000*
Interest income, net	9,713	104,281	155,553
Profit before taxation	2,713	38,484	92,508
Profit after taxation and total comprehensive income attributable to equity holders of the Target Company	2,049	28,817	69,311

Net interest income

The Target Company generates interest income from loans it provides to customers. The net interest income is net of interest expenses on loans from shareholders and loans from third parties.

The Target Company recorded net interest income for the period from 13 May 2014 to 31 December 2014 and the years ended 31 December 2015 and 2016 of approximately RMB9.7 million, RMB104.3 million and RMB155.6 million respectively. The increase in the net interest income was mainly due to the increase in interest income and partly offset by an increase in interest expenses.

Interest income

Interest income increased from approximately RMB112.9 million for the year ended 31 December 2015 to approximately RMB197.8 million for the year ended 31 December 2016. Such increase in interest income was mainly attributable to (i) the increase in gross outstanding loans receivable from approximately RMB1,405.0 million as of 31 December 2015 to approximately RMB1,658.7 million as of 31 December 2016; and (ii) the increase in the weighted average annual interest rate for the loans receivable from approximately 10.56% for the year ended 31 December 2015 to approximately 14.10% for the year ended 31 December 2016.

The Target Company commenced its operations in 13 May 2014 and recorded interest income of approximately RMB9.7 million for the period from 13 May 2014 to 31 December 2014. The management of the Target Company consider that the financial results for such period were not comparable to those for the year ended 31 December 2015 and 2016.

Interest expenses

The Target Company's interest expenses significant increased by approximately 392.1% or approximately RMB33.6 million from approximately RMB8.6 million for the year ended 31 December 2015 to approximately RMB42.2 million for the year ended 31 December 2016. The increase in interest expenses was primarily attributable to (i) the net increase in borrowings from approximately RMB370.0 million as at 31 December 2015 to approximately RMB491.9 million as at 31 December 2016; and (ii) the increase in the average interest rate for loans from shareholders from approximately 6.9% per annum as at 31 December 2015 to approximately 8% per annum as at 31 December 2016.

For the period from 13 May 2014 to 31 December 2014, the Target Company did not record any interest expenses.

Selling and marketing expenses and general and administrative expenses

The Target Company's total selling and marketing expenses and general and administrative expenses decreased by approximately 4.7% or approximately RMB3.2 million from approximately RMB67.8 million for the year ended 31 December 2015 to RMB64.6 million for the year ended 31

December 2016. Such decrease was mainly attributable to (i) a decrease in software maintenances fee of approximately RMB7.5 million; and (ii) a decrease in marketing expenses of approximately RMB14.6 million, and partly offset by (i) an increase in provision for the impairment loss on loans receivable of approximately RMB8.3 million; and (ii) an increase in employee benefit expense of approximately RMB7.0 million.

The Target Company incurred total selling and marketing expenses and general and administrative expenses of approximately RMB9.0 million for the period from 13 May 2014 to 31 December 2014, mainly consisting of provision for the impairment loss on loans receivable, software maintenances fee and exchange gains.

Finance income

Finance income of the Target Company represents interest from bank deposits. The Target Company recorded finance income for the period from 13 May 2014 to 31 December 2014 and the years ended 31 December 2015 and 2016 of approximately RMB2.0 million, RMB2.0 million and RMB1.6 million respectively. The decrease in the finance income during the year ended 31 December 2016 compared to the year ended 31 December 2015 was mainly due to the decrease in the Target Company's cash at banks during 2016 as compared to 2015.

Profit after tax

The Target Company's profit after taxation increased by approximately 140.5% from approximately RMB28.8 million for the year ended 31 December 2015 to approximately RMB69.3 million for the year ended 31 December 2016 due to the combined effect of abovementioned items.

The profit for the period from 13 May 2014 to 31 December 2014 was approximately RMB2.0 million as the Target Company only commenced the operations in May 2014. The management of the Target Company are of the view that the results of operations of the Target Company for the period from 13 May 2014 to 31 December 2014 were not comparable to those for the year ended 31 December 2015 and 2016.

(ii) Liquidity, financial resources and capital structure

Capital structure and gearing ratio

During the period from 13 May 2014 to 31 December 2014 and the years ended 31 December 2015 and 2016, the Target Company primarily financed its working capital through equity contributions from shareholders, borrowings and cash flows from operations.

As at 31 December 2014, the capital structure of the Target Company consisted of share capital of RMB675 million and had no interest-bearing borrowings. As at 31 December 2015, the capital structure of the Target Company consisted of share capital of RMB1,000 million and interest-bearing borrowings of approximately RMB370 million. As at 31 December 2016, the capital structure of the Target Company consisted of share capital of RMB1,000 million and interest-bearing borrowings of approximately RMB491.9 million.

As at 31 December 2014, the Target Company recorded net cash and therefore the gearing ratio (calculated as total interest-bearing borrows less cash and cash equivalents and divided by total equity) was nil. The gearing ratio of the Target Company was approximately 24.6% and 30.6% as at 31 December 2015 and 2016 respectively. Such increase in gearing ratio was mainly attributable to the increase in total borrowings from approximately RMB370.0 million as at 31 December 2015 to approximately RMB491.9 million as at 31 December 2016 and the decrease in cash and cash equivalents from approximately RMB33.3 million as at 31 December 2015 to approximately RMB6.6 million as at 31 December 2016.

Treasury policies

As at 31 December 2014, 2015 and 2016, the cash and cash equivalents of the Target Company were approximately RMB20.6 million, RMB33.3 million and RMB6.6 million, respectively. As at 31 December 2014, 2015 and 2016, the Target Company recorded net current assets of approximately RMB677.0 million, RMB973.4 million and RMB883.7 million, respectively.

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

The Target Company's borrowings included loans from shareholders and loans from third parties. As at 31 December 2014, 2015 and 2016, the loans from shareholders amounted to nil, approximately RMB370.0 million and RMB180.0 million respectively. They are unsecured and repayable on demand. The loans were fully repaid subsequent to the year ended 31 December 2016. The loans from third parties were provided by independent asset management companies and private equity fund for the operational purpose. As at 31 December 2014, 2015 and 2016, the loans from third parties amounted to nil, nil and approximately RMB311.9 million respectively.

Foreign exchange and interest rate risk

The cash and cash equivalents and the borrowings of the Target Company were mainly denominated in RMB. The business operation of the Target Company had been primarily conducted in RMB. The Target Company's exposure to foreign exchange risk relates primarily to its loans receivable denominated in Hong Kong dollar which had been settled during the year. As at the year ended 31 December 2015, the Target Company does not have material exposure on foreign exchange risk as the Target Company has no other foreign currency denominated assets and liabilities. There is no foreign currency net investment hedged by currency borrowings and other hedging instruments. The management will closely monitor the fluctuation in the currency and take appreciate actions when conditions arises.

In terms of the interest rate exposure, the Target Company's exposure to the risk in interest rates relates primarily to its loans receivable, borrowings and cash at banks. The majority of the Target Company's loans receivable and borrowings are fixed rate. The Target Company does not use derivative financial instruments to manage its interest rate risk. The management of the Target Company closely monitors the interest rate exposure of the Target Company and would consider hedging significant interest rate exposure should the need arise.

(iii) Material investments, acquisitions or disposals

There were no material acquisitions and disposals of subsidiaries and associated companies of the Target Company and no significant investments made during the period from 13 May 2014 to 31 December 2014 and the years ended 31 December 2015 and 2016.

(iv) Pledge of assets

As at 31 December 2014 and 2015, none of the assets of the Target Company were pledged.

As at 31 December 2016, part of the loans from third parties, which amounted RMB21,500,000, were secured by certain loans receivable.

(v) Contingent liabilities

As at 31 December 2014, 2015 and 2016, there were no material contingent liabilities to the Target Company.

(vi) Capital commitments

As at 31 December 2014, 2015 and 2016, the Target Company did not have any material capital commitment.

(vii) Employee and remuneration policy

There were 23, 66 and 86 staff engaged in the mirco-credit business at 31 December 2014, 2015 and 2016. The employee benefit expenses amounted to approximately RMB0.5 million, RMB5.2 million and RMB12.2 million for the period from 13 May 2014 to 31 December 2014 and the years ended 31 December 2015 and 2016 respectively. Part of the employee benefit expenses were bore by a related company of the Target Company, please refer to note 18 and 22 to the accountants' report of the Target Company set out in Appendix II to this circular.

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

(viii) Future prospects

The Target Company is the first approved foreign-invested micro-finance company which can conduct business throughout the PRC. Leveraging on the Internet technologies, the Target Company provides financial services (such as "Hui-Xin-Dai", trading loans, mortgage loans, etc) to different customers, including members of hc360.com operated by the Group. The existing customers of the Target Company are mainly located in Beijing, Tianjin, Shanghai, Guangdong and other provinces in the PRC. The Target Company is committed to become a leading B2B supply chain Internet finance company in the PRC.

Upon completion of the Acquisition, it is expected that the Target Company will have a better synergistic effect with the Group's finance leasing and newly established factoring business and further improve and strengthen the finance cluster of the Group. Together with the existing services and products provided by the Group, the Acquisition would enable the Group to build a more complete B2B ecosystem in the PRC.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities and unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") have been prepared on the basis of the notes set out below for the purpose of illustrating the effects on the assets, liabilities and net tangible assets of the Enlarged Group as if the Proposed Transaction (to be defined below) had been completed on 31 December 2016.

The Unaudited Pro Forma Financial Information as at 31 December 2016 has been prepared based on (i) the audited consolidated statement of financial position of the Group as at 31 December 2016, as set out in its published annual report for the year ended 31 December 2016; and (ii) the pro forma adjustments prepared to reflect the effects of the proposed acquisition of the remaining equity interest of Chongqing Digital China Huicong Micro-Credit Co., Ltd by the Group (the "**Proposed Transaction**") as explained in the notes set out below that are directly attributable to the Proposed Transaction and not relating to future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Group had the Proposed Transaction been completed as at 31 December 2016 or any future date.

(I) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	Audited consolidated statement of financial position of the Group as at 31 December 2016	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
ASSETS					
Non-current assets					
Land use rights	171,408				171,408
Investment properties	660,345				660,345
Property, plant and equipment	309,516	101			309,617

	Audited consolidated statement of financial position of the Group as at 31 December 2016	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
Intangible assets					
– Goodwill	1,068,987		31,835		1,100,822
– Other intangible assets	452,632		719,500		1,172,132
Long-term deposit, prepayments and other receivables	32,011				32,011
Loans receivable	–	400,373			400,373
Deferred income tax assets	11,386				11,386
Investments accounted for using equity method	579,023		(440,257)		138,766
Available-for-sale financial assets	484,071				484,071
Financial assets at fair value through profit and loss	4,600				4,600
Total non-current assets	3,773,979	400,474	311,078		4,485,531
Current assets					
Completed properties held for sale	364,617				364,617
Direct selling costs	81,351				81,351
Current portion of finance lease receivables	352,327				352,327
Deposits, prepayments and other receivables	172,711	3,683			176,394
Trade receivables	154,989				154,989
Interest receivables	–	4,792			4,792
Loans receivable	–	1,213,070			1,213,070
Inventories	3,590				3,590
Available-for-sale financial assets	212,646				212,646
Financial assets at fair value through profit or loss	172,686				172,686
Cash and cash equivalents	963,523	6,629			970,152
Total current assets	2,478,440	1,228,174			3,706,614
Total assets	6,252,419	1,628,648	311,078		8,192,145

	Audited consolidated statement of financial position of the Group as at 31 December 2016	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
LIABILITIES					
Non-current liabilities					
Non-current portion of bank borrowings	127,376				127,376
Non-current portion of other borrowings	22,206	184,000			206,206
Deferred government grants	185,508				185,508
Deferred income tax liabilities	144,654		179,875		324,529
Receipt in advance	40,282				40,282
Financial liabilities at fair value through profit or loss	27,123				27,123
Total non-current liabilities	547,149	184,000	179,875		911,024
Current liabilities					
Current portion of finance lease obligations	158				158
Trade payables	7,916				7,916
Accrued expenses and other payables	216,882	29,058		4,317	250,257
Deferred revenue	244,367				244,367
Current portion of bank borrowings	724,528				724,528
Current portion of other borrowings	9,372	307,876			317,248
Deferred government grants	14,500				14,500
Receipt in advance	453,540				453,540
Issued convertible bonds – liabilities portion	654,743				654,743
Financial liabilities at fair value through profit or loss	14,377				14,377
Other taxes payable	36,898	944			37,842
Income tax payable	59,846	6,593			66,439
Total current liabilities	2,437,127	344,471		4,317	2,785,915
Total liabilities	2,984,276	528,471	179,875	4,317	3,696,939
Net assets	3,268,143	1,100,177	131,203	(4,317)	4,495,206

1. The amounts are derived from the audited consolidated statement of financial position of the Group as at 31 December 2016 as set out in its published annual report for the year ended 31 December 2016.

2. The amounts are extracted from the statement of financial position of the Target Company as at 31 December 2016 as set out in Appendix II of this Circular.

3. For the purpose of preparing the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, the Directors assumed that with the exception of intangible assets, the pro forma fair value of identifiable assets and liabilities of the Target Group are the same as their respective carrying amounts as at 31 December 2016.

   The Group has applied the acquisition method in accordance with HKFRS 3 "Business Combinations" to account for the Proposed Transaction as if the Proposed Transaction was completed on 31 December 2016 and the calculation of pro forma goodwill is as follows:

	RMB'000
Consideration transferred (i)	1,083,637
Fair value of the existing 40% equity interest of the Target Company (ii)	588,000
	1,671,637
Carrying amount of identifiable net assets acquired	(1,100,177)
Pro forma fair value adjustment to intangible assets (iii)	(719,500)
Deferred tax liabilities arising from pro forma fair value of adjustment to intangible assets (iii)	179,875
Pro forma goodwill	31,835

   Prior to the completion of the Proposed Transaction, the Group accounted for its 40% equity interest in the Target Company as investment in joint venture with carrying amount of RMB440,257,000 as at 31 December 2016. The Group remeasured its previously held equity interest in the Target Company at 31 December 2016 and recognised the resulting gain or loss in the profit or loss.

   (i) As stipulated in the formal sale and purchase agreement as mentioned in the Letter from the Board of this circular ("**Formal SPA**"), Beijing Huicong International Information Co., Ltd (the "**Purchaser**"), a wholly-owned subsidiary of the Company, will settle the consideration in cash to Digital China Investments Limited (the "**Vendor**"), an indirect wholly-owned subsidiary of Digital China; Digital China has undertaken that upon the Purchaser transferring any part of the Consideration to the Vendor in the PRC, Digital China will immediately pay, or immediately procure its subsidiary to pay, a sum equal to the said part of the Consideration to the Company to subscribe for new ordinary shares at the issue price of HK$7.0 per ordinary share. Pursuant to the Formal SPA, at the completion of the Proposed Transaction, a total of 175,285,714 new ordinary shares at HK$7.0 per ordinary share of approximately HKD1,227,000,000 (approximately equivalent to RMB1,083,637,000) will have been issued to Digital China.

(ii) This amount represents the remeasured fair value of the 40% equity interest of the Target Company held by the Company as at 31 December 2016 based on the director's estimation with reference to a valuation carried out by an independent qualified professional valuer not connected with the Group.

	RMB'000
Fair value of 60% equity interest in the Target Company per valuation in Appendix V	1,100,000
Less: control premium included in the above valuation per in Appendix V	25%
Adjusted fair value of 60% equity interest in the Target Company (without control premium)	880,000
Adjusted fair value of 40% equity interest in the Target Company (without control premium)	588,000

(iii) The pro forma fair value adjustments to intangible assets mainly relate to the recognition, on a pro forma basis, of microfinance license and other intangible assets amounting to RMB714,000,000 and RMB5,500,000 respectively. The pro forma fair values of the intangible assets are as at 31 December 2016 and are based on the directors' estimation with reference to a valuation carried out by an independent qualified professional valuer not connected with the Group.

The microfinance license is assessed using income approach based on the past performance of the Target Group and the management's expectations for the market development of the microfinance business. The deferred tax liabilities relating to the pro forma fair value of intangible assets amounted to approximately RMB179,875,000, calculated at the PRC Corporate Income Tax rate of 25%.

For the purpose of the Unaudited Pro Forma Financial Information, the directors have made an assessment on whether there is any impairment indicator in respect of the goodwill arising from the Proposed Transaction with reference to Hong Kong Accounting Standard 36 "Impairment of Assets" ("**HKAS 36**"). The assessment is made with reference to the valuation report of the Sale Shares issued by Access Partner Consultancy & Appraisals Limited in Appendix V and the underlying bases and assumptions adopted, as well as the historical financial performance and the potential benefit from the synergies arising from the Proposed Transaction. Based on the assessment results, the directors are not aware of any goodwill impairment indicator.

The Company will perform an assessment of impairment indicator on the Enlarged Group's goodwill upon completion of the Proposed Transaction and at the end of each reporting period, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the Group's accounting policies. The Directors confirm that consistent accounting policies will be applied for assessing impairment of goodwill in accordance with HKAS 36.

The pro forma fair values of the identifiable assets and liabilities, goodwill and the share consideration paid in relation to the Proposed Transaction are subject to change depending on the actual share price of the Company's shares at the share issuance date(s) and upon the completion of purchase price allocation at the completion date of the Proposed Transaction (the "**Valuation**"), which may be substantially different from their estimated amounts used in the preparation of this Unaudited Pro Forma Financial Information.

4. The adjustment represents the estimated professional fees of approximately RMB4,317,000 relating to the Proposed Transaction. The amounts include the costs of professional advisers for the Proposed Transaction, which is assumed to be paid after the completion of the Proposed Transaction.

5. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 31 December 2016.

(II) Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Enlarged Group

	Issuance of 175,285,714 ordinary shares by the Company to acquire the Target Company as at 31 December 2016			
	Audited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2016	Unaudited consolidated net tangible assets attributable to equity holders of the Company per ordinary share as at 31 December 2016	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2016	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company per ordinary share as at 31 December 2016
	RMB'000	*RMB*	*RMB'000*	*RMB*
	Note 1	*Note 2*	*Note 3*	*Note 4*
Consolidated net tangible assets attributable to equity holders of the Company	1,467,170	1.4609	1,942,898	1.6471

Notes:

1. The amount of audited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2016 is based on the audited consolidated net assets attributable to the equity holders of the Company as at 31 December 2016 of RMB2,988,789,000 as extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2016, with an adjustment for the goodwill and other intangible assets as at 31 December 2016 of RMB1,068,987,000 and RMB452,632,000 respectively.

2. The number of shares used for the calculation of the unaudited consolidated net tangible assets attributable to equity holders of the Company per ordinary share comprises 1,004,308,103 ordinary shares in issue as at 31 December 2016. The number of ordinary shares used in the calculation has not taken into account the effects of the existing convertible bonds, share options and share award scheme of the Group as at 31 December 2016 since they are not conditional on the Proposed Transaction and are not the subject matter of the Proposed Transaction.

3. The amount of unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2016 is calculated based on the unaudited pro forma consolidated net assets as at 31 December 2016 of RMB4,495,206,000 as extracted from the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, with an adjustment for the goodwill and other intangible assets as at 31 December 2016 of RMB1,100,822,000 and RMB1,172,132,000 respectively, and net of the retained profits of RMB279,354,000 shared by the non-controlling interests of the Group as at 31 December 2016 as extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2016.

4. The number of shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company per ordinary share comprises 1,004,308,103 ordinary shares in issue as at 31 December 2016 as explained in note 2 above, and the 175,285,714 ordinary shares to be issued upon completion of the Proposed Transaction as explained in Note 3(i) of section (I) above. The number of ordinary shares used in the calculation has not taken into account the effects of the existing convertible bonds, share options and share award scheme of the Group as at 31 December 2016 since they are not conditional on the Proposed Transaction and are not the subject matter of the Proposed Transaction.

5. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 31 December 2016.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc

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

TO THE DIRECTORS OF HC INTERNATIONAL, INC.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of HC International, Inc. (the "**Company**") and its subsidiaries (collectively the "**Group**") and Chongqing Digital China Huicong Micro-Credit Co., Ltd. (the "**Target Company**") (collectively the "**Enlarged Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities and the unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group as at 31 December 2016, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages IV-1 to IV-8 of the Company's circular dated 27 June 2017, in connection with the proposed acquisition of the remaining equity interest in the Target Company by the Group (the "**Proposed Transaction**"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-8.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Proposed Transaction on the Group's financial position as at 31 December 2016 as if the Proposed Transaction had taken place at 31 December 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 December 2016, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

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

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

Reporting Accountant's Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 June 2017

*The following is the text of a valuation report, prepared for the purpose of incorporation in this circular, received from Access Partner Consultancy & Appraisals Limited, an independent valuer, in connection with their valuation as of 31 March 2017 of 60% equity interest of Chongqing Digital China Huicong Micro-Credit Co., Ltd. (重慶神州數碼慧聰小額貸款有限公司) (the "**Target Company**").*

ACCESS PARTNER
CONSULTANCY & APPRAISALS

2603, 26/F, Tung Wai Commercial Building,
No. 109-111 Gloucester Road,
Wanchai,
Hong Kong

27 June 2017

The Board of Directors

HC International, Inc.
18/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Dear Sirs/Madams,

Valuation of 60% equity interest of Chongqing Digital China Huicong Micro-Credit Co., Ltd. (重慶神州數碼慧聰小額貸款有限公司) as of 31 March 2017

INSTRUCTION

This report has been prepared solely for HC International, Inc. (the "**Company**"), which has engaged Access Partner Consultancy & Appraisals Limited ("**Access Partner**" or "**we**") to perform a valuation of 60% equity interest of Chongqing Digital China Huicong Micro-Credit Co., Ltd. (重慶神州數碼慧聰小額貸款有限公司) ("**Chongqing Digital China Huicong Micro-Credit**") (the "**Target Company**") as of 31 March 2017 (the "**Date of Valuation**").

This report states the purpose of valuation, basis of valuation, scope of work, source of information, overview of the Target Company, overview of the industry, major assumptions, valuation methodology, sensitivity analysis, limiting conditions, remarks and opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Access Partner acknowledges that this report may be made available to the Company for public documentation purpose and used as reference on the Company's circular dated 27 June 2017 (the "**Circular**").

We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

2. BASIS OF VALUATION

Our valuation has been based on **fair value**, which is defined by International Valuation Standards established by the International Valuation Standards Council as "the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties".

3. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, the management of the Target Company and/or their representative(s) (collectively the "**Management**"). In the course of our valuation work, we have conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions provided:

- Discussed with the Management in relation to the background, development, operations, financial performance and other relevant information of the Target Company;
- Reviewed relevant financial information, operational information and other relevant data concerning the Target Company;
- Reviewed and discussed with the Management on the business development concerning the Target Company provided to us by the Management;
- Performed market research in relation to the economic outlook in general and the specific economic environment and market elements affecting the business, industry and market and obtained relevant statistical figures from public sources;
- Examined relevant basis and assumptions of both the financial and operational information of the Target Company, which were provided by the Management;
- Prepared a valuation model to derive the fair value of the Target Company; and

- Presented all relevant information on the scope of work, source of information, overview of the Target Company, overview of the industry, major assumptions, valuation methodology, sensitivity analysis, limiting conditions, remarks and conclusion of value in this report.

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

4. SOURCE OF INFORMATION

For the purpose of our valuation, we have been provided with the information in respect of the Target Company prepared by the Management. The valuation required the consideration of all relevant factors including, but not limited to, the following:

- Background information of the Target Company's business operations and relevant corporate information;

- Historical financial information of the Target Company;

- Registrations, legal documents, permits and licenses related to the Target Company;

- The economic outlook in general and the specific economic environment and market elements affecting the Target Company, industry and market; and

- Bloomberg Database and other reliable sources of market data.

We have also conducted research from public sources and carried out site inspection to assess the reasonableness and fairness of information provided. We have assumed the accuracy of information provided and relied to a considerable extent on such information in arriving at our opinion.

5. OVERVIEW OF THE TARGET COMPANY

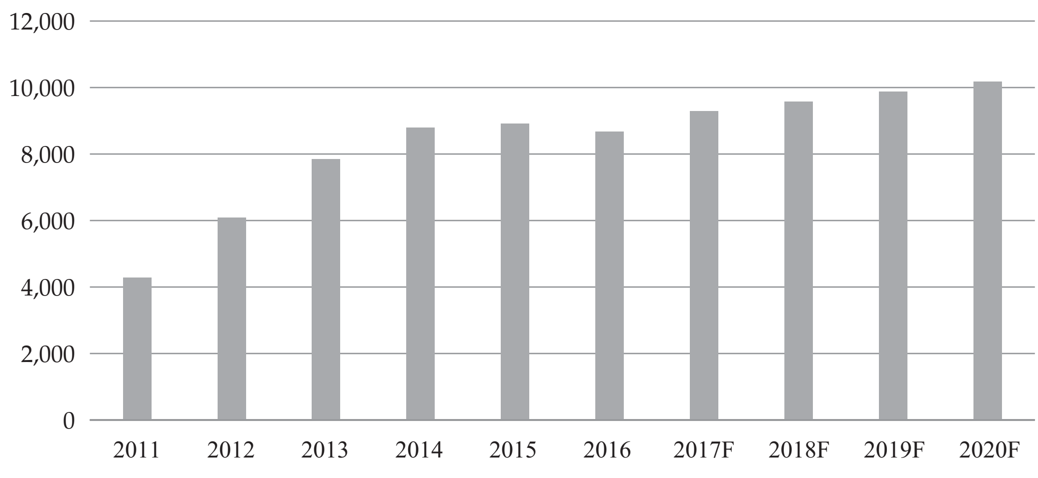
Chongqing Digital China Huicong Micro-Credit Co., Ltd. (重慶神州數碼慧聰小額貸款有限公司) (i.e., the Target Company) is a company established in the People's Republic of China (the "**PRC**") in 2014. The Target Company is principally engaged in the business of developing and operating the micro-credit internet financing business in the PRC and developing the micro-finance products such as trade finance, personal credit and guaranteed loan.

6. OVERVIEW OF THE INDUSTRY

Microfinance is a source of financial services for entrepreneurs and small and medium-sized enterprises ("**SMEs**") that lack of access to banking and related services. In May 2008, the China Banking Regulatory Commission ("**CBRC**") and the People's Bank of China ("**PBOC**") issued the Guiding Opinions, laying down the foundation for establishing, registering and operating a microfinance company at the national level. As a result, this led to a rapid surge in the number of registered microfinance companies in the PRC. Furthermore, the State Council published supplemental guidance, the Guidance on the Structural Adjustment, Transformation and Upgrading of the Financially Supported Economy (關於金融支持經濟結構調整和轉型升級的指導意見), in July 2013 on structural adjustment of financially supported economy leading to increase support, guidance on the customer diversification and the access to lower cost funding provided by the PRC government towards microfinance companies.

According to Ipsos Limited ("**Ipsos**"), a global research and consulting firm, the number of government registered microfinance companies in the PRC surged from 4,282 in 2011 to 8,673 in 2016 as illustrated in Figure 1 below, representing a compounded annual growth rate ("**CAGR**") of approximately 15%. While the total registered capital in the microfinance industry reached RMB823.4 billion by 2016. It is forecasted that the number of government registered microfinance companies will continue to grow and reach 10,180 by 2020.

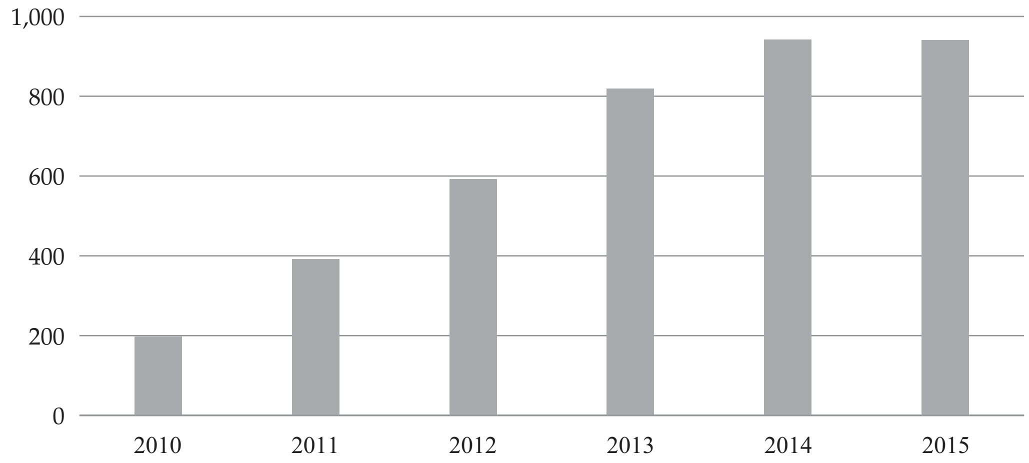
Figure 1: The Total Number of Government Registered Microfinance Companies in the PRC (2011-2020)



Source: The PBOC, Ipsos

According to Ipsos, the outstanding loan principal amounts granted by microfinance companies in the PRC surged from RMB197.5 billion in 2010 to RMB941.2 billion in 2015 as illustrated in Figure 2 below, representing a CAGR of approximately 36.7%. The total amounts granted by microfinance companies out of the total principal amount of the outstanding loans granted in the PRC also continued to grow from 0.7% in 2011 to 0.9% in 2016.

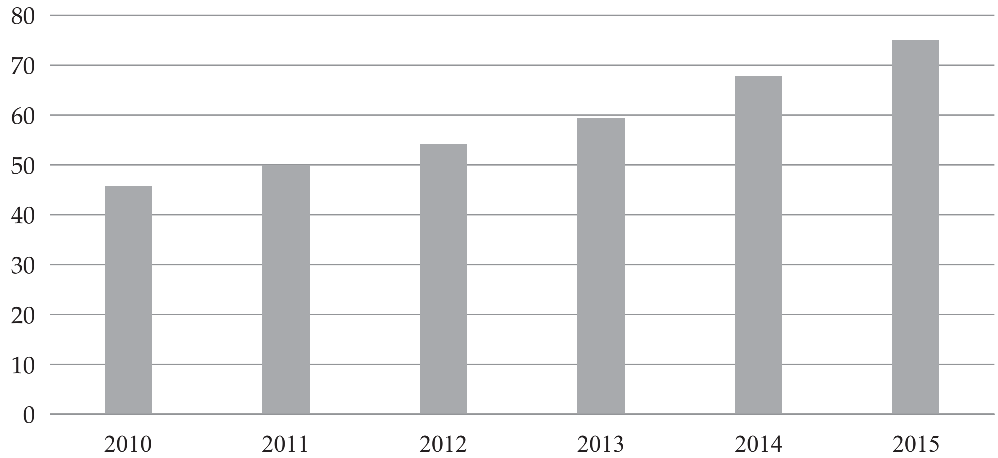
Figure 2: Total Principal Amount of Outstanding Loans Granted by Microfinance Companies in the PRC (2010 to 2015) (in RMB billion)



Source: The PBOC, Quanzhou Financial Affairs Bureau; Fujian Economic and Information Technology Commission, and Ipsos

According to Ipsos, the number of SMEs and microenterprises in the PRC continued to grow from 45.7 million in 2010 to 74.9 million in 2015 as illustrated in Figure 3 below, representing a CAGR of approximately 10.4%. In 2015, the total number of SMEs and microenterprises accounted for approximately 96.7% of the total enterprises in the PRC. The surging microfinance service demand from SMEs, microenterprises and individual proprietors led to a rapid expansion of the microfinance industry in the PRC. Owing to the lack of sufficient collaterals, smaller business size and higher risk of default, banks are reluctant to lend money to SMEs, microenterprises and individual proprietors. This provides an opportunity for the microfinance companies to lend micro and small loans to SMEs, microenterprises and individual proprietors.

Figure 3: Total Number of SMEs and Microenterprises in the PRC (2010 to 2015) (in million)



Source: Ministry of Industry and Information Technology, National Bureau of Statistics and Ipsos

7. MAJOR ASSUMPTIONS

In conducting our valuation work, the following assumptions have been adopted in order to sufficiently support our conclusion of value including, but not limited to:

- The information provided and the representations made by the Management with regard to the Target Company's financial and business affairs are accurate and reliable;

- The Target Company will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business development;

- The Target Company has obtained all necessary permits, business certificates, licenses and legal approvals to operate the business and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;

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

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

- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company;

- There will be no material changes in the relevant interest rates and exchange rates that would impact the Target Company's business;

- There are no material changes in the balance sheet figures of the Target Company between 31 December 2016 and 31 March 2017; and

- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Target Company as of the Date of Valuation.

In the event actual events do not accord with one or more of the above assumptions, the resulting value of the Target Company may vary substantially from the figure as set out in this report.

8. VALUATION METHODOLOGY

In conducting the valuation, we have considered three generally accepted approaches, including income approach, market approach and cost approach.

8.1. General Valuation Approaches

8.1.1 Market Approach

The market approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sales and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and the comparable properties.

8.1.2 Income Approach

The income approach measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition.

8.1.3 Cost Approach

The cost approach measures the value of an asset by the cost to reproduce or replace it with another of like utility. To the extent that the asset being valued provides less utility than a new asset, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional and economic obsolescence.

8.2. Adopted Approach for the Valuation of the Target Company

Among the abovementioned valuation approaches, the selection of the valuation approach in valuing the Target Company is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market transactions, uniqueness of the Target Company's business operations and nature of the industry the Target Company is participating, professional judgment and technical expertise.

The market approach was considered to be the most appropriate valuation approach in this valuation as it requires far fewer subjective assumptions than the income approach and compared to the cost approach it is more likely to reflect current market expectations over the corresponding industry since the price multiples of the comparable companies were arrived from market consensus and capture the future development potentials of the Target Company. Under the market approach, the guideline public company method is adopted.

8.2.1 Comparable Companies

The fair value of the Target Company was determined with reference to the business nature and operational information of publicly listed companies that are considered to be comparable to the Target Company (the "**Comparable Companies**").

Due to the fact that there is no company is exactly the same as the Target Company, a set of the Comparable Companies must be selected in valuing the Target Company. To determine the set of the Comparable Companies, we mainly focused on the following perspectives during the selection process from the public resources (e.g., Bloomberg), including:

(i) The companies are principally engaged in the financing service industry (for example, credit provider and financial guarantee etc.) in the PRC;

(ii) The companies are publicly listed in Hong Kong and/or the PRC; and

(iii) Sufficiency of information (such as listing and operating histories, and availability of the financial information to the public).

Details of the Comparable Companies are listed as follows:

Company Name	Bloomberg Ticker	Business Description
Credit China FinTech Holdings Limited	8207 HK	Credit China FinTech Holdings Limited is a financing service provider. It offers FinTech services including third party payment, online investment and technology-enabled lending as well as traditional loans and financing services to SMEs, merchants and individuals in China and Asia.
Zuoli Kechuang Micro-finance Company Limited	6866 HK	Zuoli Kechuang Micro-finance Company Limited focuses on providing credit-based financing solutions to Deqing's fast growing SME and microenterprise sector.
China Financial Services Holdings Limited	605 HK	China Financial Services Holdings Limited is a diversified finance service company. It, through its subsidiaries, provides direct loans by self-owned funds, bank loans by guarantee company, corporate bonds or collective notes financing service through the guarantee function, and financing consulting service based on the financing needs of SMEs.

Company Name	Bloomberg Ticker	Business Description
China Huirong Financial Holdings Limited	1290 HK	China Huirong Financial Holdings Limited is a short-term secured financing service provider. It specializes in providing short-term loans secured by collateral, or "pawn loans", to customers.
Quanzhou Huixin Micro-credit Co., Ltd.	1577 HK	Quanzhou Huixin Micro-credit Co., Ltd. offers micro lending and other related financial services to individuals and small business throughout China.
Anhui Xinli Finance Co., Ltd.	600318 CH	Anhui Xinli Finance Co., Ltd. operates in the financial services industry. It offers financial guarantees, small loans, pawns, financial leasing, and online finance services.
Gome Finance Technology Co., Ltd.	628 HK	Gome Finance Technology Co., Ltd. is principally engages in the provision of financial services, including the provision of commercial factoring services, real estate-backed loan services, personal property pawn loan services, other loans services, financial leasing services, and financial consulting services in the PRC and money lending services in Hong Kong.
Differ Group Holding Company Limited	6878 HK	Differ Group Holding Company Limited operates as a diversified financial holding company. It provides services in security, pawn, finance, leasing and financial advisory.
Hanhua Financial Holding Co., Ltd.	3903 HK	Hanhua Financial Holding Co., Ltd is a financial service holding company. Its affiliated institutions specialize in comprehensive financial services such as internet finance, financing guarantee, microfinance, financial factoring, asset management and credit management for micro, small and medium enterprises.

Company Name	Bloomberg Ticker	Business Description
China Success Finance Group Holdings Limited	3623 HK	China Success Finance Group Holdings Limited provides financial guarantees and non-financial guarantee services to SMEs to assist them in obtaining loans from banks or other financial institutions. It also provides financial consultancy services.
Guangdong Join-Share Financing Guarantee Investment Co., Ltd.	1543 HK	Guangdong Join-share Financing Guarantee Investment Co., Ltd. is a financing guarantee services provider in Guangdong province. It focuses on providing credit-base financing solutions to SMEs.

Source: Bloomberg and Comparable Companies' data

Having considered that companies likely to emphasis more on micro-credit financing business are less than three companies and this is not sufficient and representative enough of the Target Company's industry, the inclusion of the companies that mainly engaged in the provision of loans and financing and financing guarantee services can form a more comprehensive and representative list reflecting the business returns and risks in assessing the valuation.

The companies that engage in financial guarantee services act as a surety and provide guarantees on behalf of the borrowers to assist them in obtaining loans from banks or other financial institutions by guaranteeing the repayment of the loans. In case of default on debt payment by the borrowers, the lendor has the first claim towards the guarantor. Given the business nature and risk in substance of both the provision of loans and financing and financial guarantee services are similar to the credit providers, we considered that both the provision of loans and financing and financial guarantee were within the financing service industry. Based on the abovementioned selection criteria, we consider the set of the Comparable Companies adopted in the valuation represents a comprehensive list.

8.2.2 Adopted Valuation Multiple

To derive the value of the Target Company, we have adopted Price-to-Book ("**P/B**") multiple, which expresses how much investors are willing to pay for a company's total net assets. P/B multiple is calculated using the following formula:

P/B multiple = Price per share/Book value per share

Where,

Price per share	=	Price per share of the company
Book value per share	=	Book value per share of the company in the latest available financial data as extracted from Bloomberg

Details of the valuation multiple of the Comparable Companies (the "**Base Valuation Multiple**") are shown below:

Company Name	Bloomberg Ticker	P/B Multiple As of 31 March 2017
Credit China FinTech Holdings Limited	8207 HK	4.82
Zuoli Kechuang Micro-finance Company Limited	6866 HK	0.81
China Financial Services Holdings Limited	605 HK	0.94
China Huirong Financial Holdings Limited	1290 HK	0.59
Quanzhou Huixin Micro-credit Co., Ltd.	1577 HK	1.13
Anhui Xinli Finance Co., Ltd.	600318 CH	5.34
Gome Finance Technology Co., Ltd.	628 HK	1.37
Differ Group Holding Company Limited	6878 HK	3.28
Hanhua Financial Holding Co., Ltd.	3903 HK	0.42
China Success Finance Group Holdings Limited	3623 HK	0.88
Guangdong Join-Share Financing Guarantee Investment Co., Ltd.	1543 HK	0.90
Average		**1.86**

Source: Bloomberg and Comparable Companies' data

Due to the fact that the Comparable Companies are often of different sizes (which may be due to different clientele and business operation scale etc.) than that of the company being valued and larger companies generally have lower expected returns that translate into higher value. On the other hand, small companies are perceived as more risky in relation to business operation and financial performance, and therefore the expected returns (or discount rate) are higher and resulting in lower valuation multiple. Therefore, the Base Valuation Multiple was adjusted to reflect the difference in natures between the Comparable Companies and the Target Company. The adjusted valuation multiple (the "**Adjusted Valuation Multiple**") was calculated using the following formula:

Adjusted Valuation Multiple = $1/\ (1/M + \theta)$

Where,

M = Base Valuation Multiple

θ = Required increase in the equity discount rate for size difference

The reciprocal of the Base Valuation Multiple in substance refers to the capitalization rate of the market capitalization of the company. Such capitalization rate has not considered difference of the size between the Comparable Companies and the Target Company.

With reference to Ibbotson SBBI 2016 Valuation Yearbook, which is the study of historical capital markets data in the United States. Depending on the market capitalization of each of the Comparable Companies, size premium differentials of 0% - 4% were adopted as of the Date of Valuation to capture the size difference between the Comparable Companies and the Target Company. The Adjusted Valuation Multiple was then derived by the reciprocal of the capitalization rate with the adjustment aforementioned.

Details of the Adjusted Valuation Multiple of the Comparable Companies are shown below:

Company Name	**Bloomberg Ticker**	**P/B Multiple As of 31 March 2017**
Credit China FinTech Holdings Limited	8207 HK	4.00
Zuoli Kechuang Micro-finance Company Limited	6866 HK	0.81
China Financial Services Holdings Limited	605 HK	0.91
China Huirong Financial Holdings Limited	1290 HK	0.59
Quanzhou Huixin Micro-credit Co., Ltd.	1577 HK	1.13
Anhui Xinli Finance Co., Ltd.	600318 CH	4.47
Gome Finance Technology Co., Ltd.	628 HK	1.31
Differ Group Holding Company Limited	6878 HK	2.97
Hanhua Financial Holding Co., Ltd.	3903 HK	0.42
China Success Finance Group Holdings Limited	3623 HK	0.88
Guangdong Join-Share Financing Guarantee Investment Co., Ltd.	1543 HK	0.90
Average		**1.67**

Source: Bloomberg and Comparable Companies' data

The Adjusted Valuation Multiple (i.e., P/B multiple of 1.67 as of 31 March 2017) was adopted in the valuation, then multiplied by the Target Company's net book value as of 31 December 2016 of approximately RMB1,100 million to determine the market capitalization of 100% equity interest of the Target Company. For the purpose of our valuation, we further multiply 60% to represent the 60% equity interest of the Target Company being evaluated.

After deriving the market capitalization of the Target Company from P/B multiple (i.e., the Adjusted Valuation Multiple), the result represents 60% equity interest of the Target Company on a minority and marketable basis. Hence, it was further adjusted for the control premium and the discount for lack of marketability to derive the fair value of the equity interest of the Target Company as of the Date of Valuation on a majority and non-marketable basis.

8.2.3 Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. Compared to similar interest in public companies, ownership interest in privately held company is not readily marketable. Therefore, the value of a share in a privately held company is usually less than that in a publicly held company. The lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In determining a reasonable lack of marketability, we have made reference to a few studies which include "International Private Equity and Venture Capital Valuation Guidelines", jointly published by the Association Francaise des Investisseurs en Capital ("**AFIC**"), the British Venture Capital Association ("**BVCA**") and the European Private Equity and Venture Capital Association ("**EVCA**") and "Determining Discounts for Lack of Marketability: A Companion Guide to the FMV Restricted Stock Study" published by Business Valuation Resources and it is all-inclusive database that provides empirical support to determine discounts for lack of marketability.

The above lack of marketability discount studies stated that the lack of marketability discount ranged from 10% to 30% in general. After considering the above studies, the discount for lack of marketability of 20% was adopted in the valuation. As there is no evidence that the discount for lack of marketability of the Target Company varies from the overall market, we considered that it is fair and appropriate to adopt such marketability discount in our valuation.

8.2.4 Control Premium

The controlling interest in a company can be a distinct advantage on the making decisions in terms of business operations, business development, etc. For instance, with the authority that accompanies control the controlling shareholder can control the company's net cash flow and any discretionary expense items that the company makes on behalf of shareholders. Hence, the value of the controlling interest in a company is usually higher than the minority interest, which is generally held at the great risk of being subject to the judgment, ethics and management skills of the controlling shareholders.

In determining a reasonable control premium, we have made reference to the Control Premium Study published by FactSet Mergerstat, LLC, a global mergers and acquisitions information provider. It included the data derived from market transactions involving companies in the United States, including privately held, publicly traded and cross-border transactions. We considered that it is fair and appropriate to adopt such control premium in our valuation. After considering the figure from the median of control premium in the international transactions in the above study, the control premium of 25% was adopted in the valuation.

8.2.5 Calculation Details

For illustrative purpose, the calculation details of the fair value of the Target Company was shown below:

Net Book Value of the Target Company as of 31 December 2016* *(RMB million)*	1,100
Multiplied by: Average P/B Multiple	1.67
Fair Value before Applying Marketability Discount and Control Premium* *(RMB million)*	1,840
Adjusted for Control Premium	(1+25%)
Adjusted for Marketability Discount	(1-20%)
Fair Value of 60% Equity Interest of the Target Company* *(RMB million)*	1,100

* *Rounding figures*

9. SENSITIVITY ANALYSIS

By its very nature, valuation work cannot be regarded as an exact science and the conclusion arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation. Thus, the following sensitivity analysis has been applied to determine the impact of change in P/B multiple on the fair value of 60% equity interest of the Target Company.

Sensitivity Analysis for the Valuation as of 31 March 2017

Change in Adjusted Valuation Multiple	**P/B Multiple**	**Fair Value of 60% Equity Interest of the Target Company**	**Change in Fair Value of 60% Equity Interest of the Target Company**
(x)	*(x)*	*(RMB in Million)*	*(%)*
+10%	1.84	1,210	10.0%
+5%	1.75	1,160	5.5%
Base case	1.67	1,100	0.0%
–5%	1.59	1,050	-4.5%
–10%	1.50	990	-10.0%

10. LIMITING CONDITIONS

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

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

We have relied on information provided by the Management to a considerable extent in arriving at our opinion of value. We have not verified the accuracy of the information provided and have assumed that the aforesaid information is accurate. We have not conducted any further investigations concerning whether all data have been provided to us for our assessment and we have no reason to believe that any material data have been withheld from us.

We would particularly point out that our valuation was based on the information such as the projections made by the Target Company, company background, business nature of the Target Company provided to us.

Our conclusion of the value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation.

This report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated in Section 1 – Purpose of Valuation, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

The title of this report shall not pass to the Company until all professional fees have been paid in full.

11. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Company, or the value reported herein.

12. OPINION OF VALUE

Based on the investigation and analysis stated above, our scope of work, the valuation method employed, information reviewed and the assumptions adopted, the fair value of 60% equity interest of the Target Company as of 31 March 2017 (i.e., the Date of Valuation), in our opinion, was reasonably stated as **RMB1,100,000,000 (RENMINBI ONE THOUSAND AND ONE HUNDRED MILLION ONLY)**.

Yours faithfully,
For and on behalf of
Access Partner Consultancy & Appraisals Limited

Elvis C F Ng
CFA, FRM
Director

Note: Mr. Elvis C F Ng is a Chartered Financial Analyst and a Financial Risk Manager. He has over eight years' experience of business valuation, transaction advisory and corporate consultancy in Hong Kong, the PRC and the Asia Pacific Region, as well as relevant experience in the United Kingdom, France, Russia and American countries.

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) Director's Interests in the Shares, underlying Shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, save as disclosed below, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange or which are required to be disclosed in this circular pursuant to the Takeovers Code were as follows:

Name of Director	Number of Shares held/ interested	Capacity/ Nature of Interest	Long Position/ Short Position	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Mr. Guo	197,259,771	Beneficial owner/ Family interest/ Other *(Note 1)*	Long	19.69
	66,000,000	Other *(Note 1)*	Short	6.59
Guo Fansheng	57,749,015	Beneficial owner *(Note 2)*	Long	5.76

Name of Director	Number of Shares held/ interested	Capacity/ Nature of Interest	Long Position/ Short Position	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Lee Wee Ong	19,850,672	Beneficial owner *(Note 3)*	Long	1.98
Liu Jun	40,000,000	Beneficial owner	Long	3.99
Li Jianguang	32,000,384	Interest in controlled corporation *(Note 4)*	Long	3.19

Notes:

1. Such interests in the Company comprise:

   (a) 127,908,771 Shares of which 117,124,146 Shares are held by Mr. Guo and 10,784,625 Shares are held by Ms. Geng Yi, who is Mr. Guo's spouse;

   (b) 8,351,000 underlying Shares derived from the awarded shares granted to Mr. Guo under the employees' share award scheme adopted on 17 November 2011; and

   (c) 61,000,000 Shares which were borrowed by Mr. Guo Jiang from Ms. Geng Yi and Mr. Guo Fansheng pursuant to a stock borrowing agreement dated 9 May 2016 entered into between Mr. Guo, Ms. Geng Yi and Mr. Guo Fansheng, of which 35,000,000 Shares were subsequently pledged to an independent third party.

   Mr. Guo is deemed, or taken to have, interested in the Shares and underlying Shares held by Ms. Geng Yi pursuant to the SFO.

2. Such interests in the Company comprise: (i) 35,000,000 Shares held by Guo Fansheng and (ii) 22,749,015 Shares held by a trustee of a trust of which Mr. Guo Fansheng is a beneficiary.

3. Such interests in the Company comprise: (i) 18,350,672 Shares and (ii) 1,500,000 underlying Shares derived from the Share Options held by Mr. Lee Wee Ong.

4. The reference to 32,000,384 Shares relates to the same block of Shares held by Callister Trading Limited, the entire share capital of which is owned by Mr. Li Jianguang. Accordingly, Mr. Li Jianguang is deemed, or taken to have, interested in all the Shares held by Callister Trading Limited pursuant to the SFO.

(b) Interests of substantial Shareholders and other persons in the Shares and underlying Shares in the Company

As at the Latest Practicable Date, save as disclosed below, the Directors were not aware of any person (other than the Directors or chief executive of the Company) who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO or which are required to be disclosed in this circular pursuant to the Takeovers Code, or who was, 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 member of the Group:

Name	Number of Shares held/ interested	Capacity/ Nature of Interest	Long Position/ Short Position	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Digital China Holdings Limited	341,314,821	Interest in controlled corporation *(Note 1)*	Long	34.06
Geng Yi	197,259,771	Beneficial owner and Family interest *(Note 2)*	Long	19.69
	66,000,000	Family interest *(Note 2)*	Short	6.59
Mr. Liu Xiaodong	62,273,794	Interest in controlled corporation *(Note 3)*	Long	6.21
Wisdom Limited *(Note 4)*	62,273,794	Beneficial owner	Long	6.21

Notes:

1. The references to 341,314,821 Shares comprise of (i) 142,621,107 Shares and 23,408,000 Shares held by Talent Gain Developments Limited and Unique Golden Limited, respectively. Unique Golden Limited is wholly and beneficially owned by Talent Gain Developments Limited, which in turn is wholly and beneficially owned by Digital China (BVI) Limited and indirectly wholly and beneficially owned by Digital China Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 861). Therefore, Talent Gain Developments Limited, is deemed to be interested in the Shares held by Unique Golden Limited, and each of Digital China (BVI) Limited and Digital China Holdings Limited is deemed to be interested in the Shares held by Talent Gain Developments Limited and Unique Golden Limited; and (ii) interest in 175,285,714 New Shares pursuant to the Formal SPA.

2. Please refer to note 1 under the sub-paragraph headed "(a) Director's Interests in the Shares, underlying Shares and debentures of the Company and its associated corporations" for the interests held or deemed to be taken or interested by Ms. Geng Yi under the SFO. Ms. Geng Yi is deemed, or taken to have, interested in the Shares and underlying Shares held by Mr. Guo pursuant to the SFO.

3. Such interests in the Company comprise 62,273,794 Shares held by Wisdom Limited, the entire share capital of which is owned by Mr. Liu Xiaodong. Mr. Liu is deemed, or taken to have, interested in all the Shares held by Wisdom Limited pursuant to the SFO.

4. Wisdom Limited is a company wholly and beneficially owned by Mr. Liu Xiaodong.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing proposed service contract with any member of the Enlarged Group which does not expire or is not determinable by such member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business apart from the business of the Enlarged Group, which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

5. DIRECTORS' INTEREST IN ASSETS OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, (i) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Enlarged Group; and (ii) none of the Directors or expert named in this Circular had any direct or indirect interest in any assets which had been, since 31 December 2016 (being the date of which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. MATERIAL CONTRACTS

Save for the following contracts, no contracts (not being contracts entered into in the ordinary course of business) have been entered into by member(s) of the Enlarged Group within the two years immediately preceding the date of the Announcement and ending on the Latest Practicable Date and are, or may be, material in relation to the business of the Enlarged Group as a whole:

(a) the sale and purchase agreement dated 22 July 2015 and entered into between the Purchaser, an indirect wholly-owned subsidiary of the Company, as the purchaser and 王鳳鳳 (Wang Feng Feng) as the vendor, for the sale and purchase of 19,300,000 shares of Inner Mongolia Hohhot Jingu Rural Commercial Bank Limited Company ("**Hohhot Jingu**") for a consideration of RMB57,900,000;

(b) the placing agreement dated 12 November 2015 and entered into between the Company as the issuer, and Shenwan Hongyuan Securities (H.K.) Limited as the placing agent, in relation to the placing of up to 74,540,000 shares of the Company at the placing price of HK$3.82 per Share on a best effort basis pursuant to the terms of the placing agreement;

(c) the subscription agreement dated 7 December 2015 and entered into between the Company as the subscriber and Hohhot Jingu, in relation to the subscription for 108,661,533 shares of Hohhot Jingu for a consideration of RMB325,984,599;

(d) the subscription agreement dated 9 December 2015 and entered into between the Company, Mr. Guo Jiang, Mr. Lee Wee Ong, Mr. Liu Jun and Mr. Liu Xiaodong in relation to the subscription of the convertible bonds in an aggregated principal amount of HK$500,000,000 entitling the holders the right to convert the bonds into Shares at HK$4.00 per Share (subject to adjustments) (as supplemented by a first confirmation letter dated 29 February 2016 and a second confirmation letter dated 1 April 2016) (the "**Subscription Agreement**");

(e) the sale and purchase agreement dated 18 December 2015 entered into between the Company as the purchaser, Daxiong Holdings Limited, Hanson He Holdings Limited, Richard Chen Holdings Limited, Grand Novel Developments Limited and Mr. Moustache Holdings Limited as the sellers and Mr. Cao Guoxiong, Mr. He Shunsheng, Mr. Chen Xuejun, Mr. Guan Jianzhong and Mr. Liao Bin as the seller guarantors, in relation to the sale and purchase of entire issued share capital of Zhongfu Holdings Limited for an aggregate consideration of HK$170,807,500;

(f) the subscription agreement dated 15 January 2016 entered into between 北京慧聰再創科技有限公司 (Beijing Huicong Zaichuang Technology Co., Ltd*) ("**Beijing HC Technology**") as subscriber and 上海鋼銀電子商務股份有限公司 (Shanghai Gangyin E-Commerce Co., Ltd*) ("**Shanghai Gangyin**") as issuer in respect of the subscription of 22,000,000 shares of Shanghai Gangyin at the total subscription price of RMB99,000,000 (RMB4.5 per subscription share) by Beijing HC Technology;

(g) the capital increase agreement dated 15 March 2016 entered into between Mr. Liu Jun (劉軍), Mr. Song Bingchen (宋冰晨), Mr. Han Gang (韓剛) and Mr. Xu Ke (許可) as subscribers, 深圳市京慧聰網絡科技有限公司 (Shenzhen Jing Huicong Network Technology Company Limited*), an indirect wholly-owned subsidiary of the Company, the Purchaser and 廣州慧聰網絡科技有限公司 (Guangzhou Huicong Network Technology Company Limited*), an indirect wholly-owned subsidiary of the Company ("**Guangzhou Huicong**") in respect of increase in registered capital of Guangzhou Huicong from RMB5,000,000 to RMB8,333,333 and increase in capital reserve by RMB50,000,000 contributed by the subscribers;

(h) the conditional framework agreement (the "**Initial Framework Agreement**") in relation to the proposed disposal of the entire equity interest in Beijing Zhixing Ruijing entered into among 上海鋼聯電子商務股份有限公司 (Shanghai Ganglian E-Commerce Holdings Co., Ltd*) ("**Shanghai Ganglian**"), the Company, Beijing Huicong Construction and 西藏銳景慧傑創業投資合夥企業 (Xizang Ruijing Huijie Entrepreneurship Investment Partnership*) ("**Xizang Ruijing**") dated 26 April 2016;

(i) the partnership agreement entered into among Beijing Huicong Construction Information Consulting Co., Ltd. (北京慧聰建設信息諮詢有限公司) ("**Beijing Huicong Construction**") and Mr. Liu Xiaodong, Ms. Wang Qian, Mr. Shi Shilin and Ms. Yang Ye (the "**Zhixing Ex-Shareholders**") in respect of the formation of Xizang Ruijng dated 24 March 2016 (the "**Partnership Agreement**");

(j) the conditional deed (the "**Deed**") dated 26 April 2016 supplemental to the sale and purchase agreement (as supplemented and amended by an agreement dated 2 June 2015) dated 8 May 2015 entered into between the Company, NAVI-IT LIMITED ("**NAVI-IT**") and the Zhixing Ex-Shareholders in respect of the acquisitions of Orange Triangle Inc. ("**Orange Triangle**") and Beijing Zhixing Ruijing Technology Co., Ltd (北京知行銳景科技有限公司) ("**Beijing Zhixing Ruijing**") for a consideration of RMB1,500,000,000 entered into between the Company, NAVI-IT and the Zhixing Ex-Shareholders in relation to the buy-backs of 88,958,115 Shares;

(k) the conditional supplemental partnership agreement to the Partnership Agreement entered into between Beijing Huicong Construction and the Zhixing Ex-Shareholders dated 26 April 2016 in relation to, among others, the reward mechanism (the "**First Supplemental Partnership Agreement**");

(l) the conditional management and operations agreement entered into among Beijing Huicong International Information Co., Ltd (北京慧聰國際資訊有限公司), Beijing Huicong Construction, Mr. Guo Jiang and Mr. Guo Fansheng in relation to the appointment of Beijing International Information by Beijing Huicong Construction as its exclusive services provider of management and operations services dated 26 April 2016 and its termination agreement dated 6 June 2016;

(m) the conditional asset transfer agreement in respect of the transfer of, among others, certain intellectual property rights owned by Orange Triangle from Orange Triangle to Beijing Zhixing Ruijing entered into between Orange Triangle and Beijing Zhixing Ruijing dated 26 April 2016 (the "**Asset Transfer Agreement**");

(n) the second supplemental partnership agreement to the Partnership Agreement (as supplemented by the First Supplemental Partnership Agreement) entered into among Beijing Huicong Construction and the Zhixing Ex-Shareholders dated 4 August 2016 (the "**Second Supplemental Partnership Agreement**");

(o) the conditional termination agreement dated 26 April 2016 entered into between Mr. Guo Jiang, Mr. Liu Xiaodong, Beijing Orange Triangle Technology Co., Ltd. (北京橙三角科技有限公司), Beijing Zhixing Ruijing and Orange Triangle in relation to the termination of the exclusive technical services agreement, the exclusive licensing agreement on intellectual property, the exclusive right to purchase agreement,the voting rights proxy agreement, the pledge agreement and the business and management services agreement entered into among Orange Beijing, Orange Triangle, Beijing Zhixing Ruijing, Mr. Guo Jiang and/or Mr. Liu Xiaodong on 3 July 2015 (the "**Termination Agreement**");

(p) the conditional equity transfer agreement dated 26 April 2016 (the "**Zhixing Ruijing Equity Transfer Agreement**") entered into between Mr. Guo Jiang, Mr. Liu Xiaodong, Beijing Huicong Construction and Xizang Ruijing in respect of the transfer of the entire equity interest in Beijing Zhixing Ruijing from Mr. Guo Jiang and Mr. Liu Xiaodong to Beijing Huicong Construction and Xizang Ruijing;

(q) the first supplemental agreement to the Initial Framework Agreement entered into among Shanghai Ganglian, the Company, Beijing Huicong Construction and Xizang Ruijing dated 30 May 2016;

(r) the second supplemental agreement to the Initial Framework Agreement entered into among Shanghai Ganglian, the Company, Beijing Huicong Construction and Xizang Ruijing dated 29 June 2016;

(s) the agreement for sale and purchase dated 5 July 2016 entered into between Hong Kong Huicong International Group Limited, a wholly-owned subsidiary of the Company as purchaser and Sparkling Investment (BVI) Limited as vendor in relation to the sale and purchase of 9,400,000 shares of Digital China, representing approximately 0.80% of its issued shares, at an aggregate consideration of HK$56,400,000;

(t) the third supplemental partnership agreement to the Partnership Agreement (as supplemented by the First Supplemental Partnership Agreement and the Second Supplemental Partnership Agreement) dated 23 August 2016 entered into among Beijing Huicong Construction and the Zhixing Ex-Shareholders pursuant to which the parties agree to amend the timing of distribution of the cash consideration to the limited partners of Xizang Ruijing (i.e. the Zhixing Ex-Shareholders) (the "**Third Supplemental Partnership Agreement**");

(u) the cornerstone investment agreement dated 23 September 2016 entered into amongst Hong Kong Huicong International Group Limited, a wholly-owned subsidiary of the Company, Smart-Core Holdings Limited and DBS Asia Capital Limited and Haitong International Securities Company Limited as joint global coordinators in relation to the subscription of shares of Smart-Core Holdings Limited by Hong Kong Huicong International Group Limited;

(v) the termination agreement dated 26 September 2016 entered into between Mr. Guo Jiang, Mr. Liu Xiaodong, Beijing Huicong Construction and Xizang Ruijing to terminate the Zhixing Ruijing Equity Transfer Agreement;

(w) the termination agreement dated 26 September 2016 entered into between Orange Triangle and Beijing Zhixing Ruijing to terminate the Asset Transfer Agreement;

(x) the termination agreement dated 26 September 2016 entered into between Mr. Guo Jiang, Mr. Liu Xiaodong, Beijing Orange Triangle Technology Co., Ltd. (北京橙三角科技有限公司), Beijing Zhixing Ruijing and Orange Triangle to terminate the Termination Agreement;

(y) the termination agreement dated 26 September 2016 entered into between Beijing Huicong Construction and the Zhixing Ex-Shareholders to terminate the First Supplemental Partnership Agreement (as supplemented by the Second Supplemental Partnership Agreement and the Third Supplemental Partnership Agreement);

(z) the termination agreement dated 26 September 2016 entered into between the Company, NAVI-IT and the Zhixing Ex-Shareholders to formally terminate the Deed;

(aa) a letter of intent dated 8 December 2016 entered into among the Company, 天津慧嘉元天廣告傳媒有限公司 (Tianjin Huijiayuantian Advertisement Media Company Limited*) and Zou Kai (鄒凱), Hong Chaoran (洪超然), Sun Yi (孫毅) and Wang Fei (王菲) in relation to the proposed acquisition of the entire equity interest in 天津慧嘉元天廣告傳媒有限公司 (Tianjin Huijiayuantian Advertisement Media Company Limited*) by the Company or its designated subsidiary;

(bb) the sale and purchase agreement dated 23 December 2016 entered into between Chongqing Micro-Credit and Huatai Securities (Shanghai) Asset Management Co., Ltd. (華泰證券(上海)資產管理有限公司) in relation to the Huicong Asset-backed Special Project Phase I (慧聰一期資產支持專項計劃), pursuant to which Chongqing Micro-Credit will transfer its loan asset to Huatai Securities (Shanghai) Asset Management Co., Ltd. (華泰證券(上海)資產管理有限公司), as the administrator of the Huicong Asset-backed Special Project Phase I (慧聰一期資產支持專項計劃), at a consideration of RMB290 million;

(cc) the subscription agreement dated 23 December 2016 entered into between Chongqing Micro-Credit and Huatai Securities (Shanghai) Asset Management Co., Ltd. (華泰證券(上海)資產管理有限公司) in relation to the Huicong Asset-backed Special Project Phase I (慧聰一期資產支持專項計劃), pursuant to which Chongqing Micro-Credit, as subscriber, will subscribe assets-backed securities from Huatai Securities (Shanghai) Asset Management Co., Ltd. (華泰證券(上海)資產管理有限公司), as the administrator of the Huicong Asset-backed Special Project Phase I (慧聰一期資產支持專項計劃), at a total subscription amount of RMB106,000,000;

(dd) the conditional sale and purchase agreement dated 13 January 2017 entered into between the Company, Mu Hao Holdings Limited, Hong Rui Technology Holdings Limited, Chance Technology Co. Ltd. and Vanguard Technology Holdings Limited, as the vendors, and HONG Chaoran (洪超然), SUN Yi (孫毅), ZOU Kai (鄒凱) and WANG Fei (王菲), as the guarantors of the vendors, in respect of the acquisition of the entire issued share capital of Huijia Yuantian Limited;

(ee) the deed of termination dated 20 January 2017 entered into between the Company and Mr. Liu Xiaodong, pursuant to which, the Company and Mr. Liu Xiaodong mutually agreed to terminate the Subscription Agreement on the part of the Company and Mr. Liu Xiaodong only and in accordance with relevant clauses in the Subscription Agreement;

(ff) the Framework Agreement; and

(gg) the Formal SPA.

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was involved in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up).

9. EXPERTS AND CONSENT

The following is the qualification of the experts who have given opinions or advice contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
Somerley	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the Independent Financial Adviser
Access Partner Consultancy & Appraisals Limited	Independent Valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and the reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, none of the above experts have any shareholding in any member of the Enlarged Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, none of the above experts have any direct or indirect interest in any assets which had been, since 31 December 2016 (the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

10. MISCELLANEOUS

(a) The company secretary of the Company is Ms. KWONG Yin Ping Yvonne, who is a Fellow of the Hong Kong Institute of Chartered Secretaries and a Fellow of The Institute of Chartered Secretaries and Administrators.

(b) The registered office of the Company is situated at 4th Floor, One Capital Place, P.O. Box 847 George Town, Grand Cayman, Cayman Islands and the principal place of business of the Company in Hong Kong is situated at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) The business address of Somerley is 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up and including the date of the EGM:

(a) the memorandum of association and articles of association of the Company;

(b) the annual reports of the Company for the years ended 31 December 2015 and 2016;

(c) the accountant's report of Chongqing Micro-Credit, the text of which are set out in Appendix II to this circular;

(d) the report on the unaudited pro forma financial information of the Enlarged Group prepared by PricewaterhouseCoopers, the full text of which is set out in Appendix IV to this circular;

(e) the material contracts referred to under the paragraph headed "Material Contracts" above in this appendix;

(f) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 17 to 18 of this circular;

(g) the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 59 of this circular;

(h) the written consent referred to in the paragraph headed "Experts and Consent" in this appendix;

(i) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which has been issued since 31 December 2016 (being the date of which the latest published audited consolidated accounts of the Group were made up); and

(j) this circular.

HC INTERNATIONAL, INC.
慧聰網有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock code: 2280)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of HC International, Inc. (the "**Company**") will be held on Friday, 14 July 2017 at 4:00 p.m. (or any adjournment thereof) at Tower B, Jingyi Technical Building, No. 9 Dazhongsi East Road, Haidian District, Beijing 100098, the People's Republic of China, for the purpose of considering and, if thought fit, passing the following resolutions (unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as defined in the circular of the Company dated 27 June 2017 (the "**Circular**") of which the notice of this Meeting forms part):

ORDINARY RESOLUTION

"**THAT:**

(1) the Formal SPA (as defined in the Circular), the Acquisition, the Subscription and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved;

(2) the allotment and issue of the New Shares (as defined in the Circular) in the capital of the Company upon the subscription of Digital China (as defined in the Circular) or their respective nominee(s) be and are hereby approved; and the directors of the Company be and are hereby authorized to allot and issue the New Shares accordingly; and

(3) any one director of the Company be and is hereby generally and unconditionally authorized to do all such acts and things, to sign and execute all such documents for and on behalf of the Company as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Formal SPA, the Acquisition, the Subscription and the transactions contemplated thereunder, including but not limited to the allotment and issue of the New Shares."

By order of the board of directors of
HC International, Inc.
Guo Jiang
Chief Executive Officer and Executive Director

Beijing, the People's Republic of China, 27 June 2017

Registered office:
4th Floor
One Capital Place
P.O. Box 847
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business:
Tower B
Jingyi Technical Building
No. 9 Dazhongsi East Road
Haidian District
Beijing 100098
The People's Republic of China

Notes:

1. Any person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

3. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at the Meeting or any adjournment thereof in cases where the Meeting was originally held within 12 months from such date.

5. Where there are joint holders of any shares, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, 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.

6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.

7. Shareholders should note that the transfer books and register of members of the Company will be closed from Wednesday, 12 July 2017 to Friday, 14 July 2017, both days inclusive, and no transfer of Shares can be registered during such period. In order to qualify for attending the Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 11 July 2017.

8. A form of proxy for use at the Meeting is enclosed.