

【Company review】

Madison Holdings (8057, Unrated): First mover of Blockchain Technology and Virtual Currency in Hong Kong Stock Market

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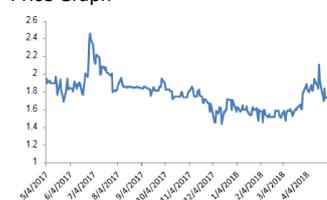
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Company Overview

Industry Alcoholic Beverage and Blockchain

Stock Price HKD 1.78
 Market Cap. HKD 7.240 billion
 Issued Shares 4.07 billion shares
 52 weeks High HKD 2.50
 Low HKD 1.35

Price Graph



Madison Holdings (Code: 8057) is successfully listed on the GEM of the Hong Kong Stock Exchange in 2015. In the early years, it was mainly engaged in the retail and development of wine and others alcoholic beverages business. After the acquisition of CVP Capital and CVP Asset Management on June 30, 2017 and July 28, 2017, the company began to set foot in the financial sector, mainly providing corporate finance consultancy and asset management services. For the nine months ended December 31, 2017, the company's revenue increased by 19.7% year-over-year to HK\$125 million. The rapid increase in year-over-year revenue was due to two reasons: 1) The company adopted a more competitive alcohol pricing strategy, contributing further expanded in the sales network; 2) Contribution of new financial services; the revenue contribution of wine business and financial business accounted for 94.6% and 5.4% respectively.

Chart 1: 2015-2018 List of company's major events

| Date | Event |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2015.10 | The company successfully listed on the GEM of Hong Kong Stock Exchange |
| 2017.07 | The company acquired CVP Capital Limited and CVP Asset Management Limited, respectively, to take the first step toward diversification |
| 2018.04 | The company subscribes a 20% stake in Bitpoint, a major virtual currency exchange in Japan, for a consideration of HK\$362 million |
| 2018.04 | A wholly-owned acquisition of three small bear technology companies in Shenzhen to engage in blockchain technology |
| 2018.04 | The placement was completed at HK\$1.7 per share and approximately HK\$116 million was raised. The proceeds were used for the equity acquisition of Bitpoint. |
| 2018.04 | The company subscribes for a 51% stake in Diginex, a cryptocurrency mining company, for a consideration of approximately HK\$471 million. |

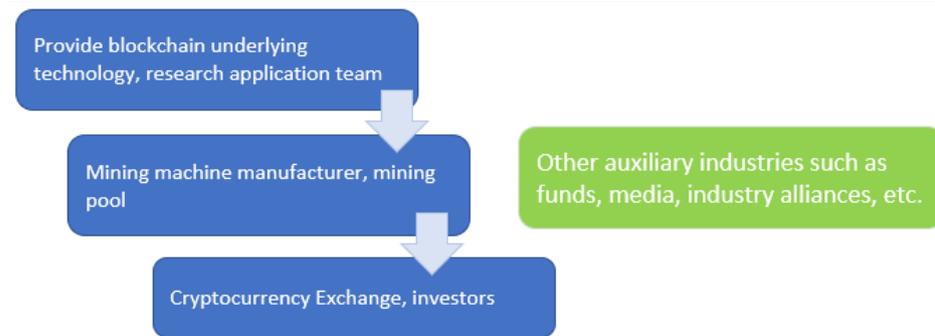
Data Source: Company Information, Sort by First Shanghai

With the broad outlook of Blockchain technology, Madison is accelerating setting up its infrastructure it related industries

Prior of their diversified business strategy showing results, the company is keen to capture the opportunity of the development of the blockchain industry and aggressively expending in the blockchain field. Blockchain is a distributed ledger database, anyone can create a block by writing in data, each block contains the hash of the current block and the hash of the previous block. Valid blocks will continue to be added to the initial block in chronological order to form a blockchain. Therefore, the blockchain has four major technical advantages: decentralization, public ledger, collective maintenance, and data reliability. At the same time, blockchain technology also solves the double spending and Byzantine Generals problem.

The four major technological advantages of the blockchain determine its broad prospects. Take China's blockchain industry as an example, it currently focuses on the development of three core areas: a link chain that focuses on blockchain technology and applications. It provides a mining circle based on double counting of mining, and a currency circle mainly based on the issuance and trading of virtual currency. Other auxiliary industries such as funds, VCs, media, and industry alliances are also important links to cartelize the rapid development of the blockchain industry. Advisory institution, Markets and Markets', data show that in 2016 the global market size for the block chain will hit 2.1 billion U.S. dollars, the market scale will reach \$ 231 million in 2021 and the estimated 5- year compound growth rate is 83.8%. The typical application scenarios of blockchain included: data transaction, authentication, new energy, vehicle networking, supply chain finance, etc. Virtual currency is the initial application of the blockchain, and it is also the top watched part in the current blockchain industry.

Chart 2: The core circle of the blockchain industry



Data Source: Company Information, Sort by First Shanghai

Acquired Japan's major virtual currency exchange - Bitpoint

Due to the rapid development of the blockchain industry, Madison has speeded up significantly in the field of blockchain technology and virtual currency. On March 30, 2018, the company announced that it will acquire a 20% stake in Bitpoint, a Japanese virtual currency exchange platform, with a consideration of HK\$362 million. As one of the most active markets for virtual currency trading in the world, Japan introduced a virtual currency exchange license system in 2017, along with that they recognized virtual currency as a legal settlement method. Japan's standardized supervision, high liquidity, and stable policies make the relevant transaction licenses valuable. Bitpoint received the virtual currency trading platform license issued by the Japan Financial Services Agency in September 2017. It is the only one of the 16 exchanges that obtained this license. After obtaining relevant licenses, Bitpoint has gradually gained the recognition from investors. The number of members increased from 14,000 in September 2017 to 40,000 in February 2018 and the transaction volume has increased significantly. At the same time, the company upgraded the trading system at the end of 2017, it has significantly shortened the time lag between transaction orders and settlement. With the system enhancement, Bitpoint's risk of exposure to the positions has decreased, and the company's team has a wealth of trading experience and hedging the risks. Therefore, the performance of the company has been significantly improved. In the ten months ended January 31, 2018, Bitpoint recorded revenues and profits of approximately HK\$188 million and HK\$132 million respectively, it has turned from losses into profits.

According to the Vendor's valuation report, Bitpoint will continue its strong growth this year. It is expected that Bitpoint's revenue and net profit for the year ending March 31, 2019 will reach HK\$1.564 billion and HK\$1.006 billion, respectively. (The key assumptions: Average number of customers will increase 3,000 per month, the monthly revenue of a single customer is approximately HK\$3,041 and OPEX has increased by approximately HK\$18 million. With that in mind, the valuation of the company's acquisition is only P/E 1.8 times.

Acquired a Shenzhen Three Bears technology company

On April 19, 2018, the company announced its acquisition of 100% equity interest in China Shenzhen three bear technology company. The transaction price was HK\$1.10 billion, which was paid in cash and shares (the cash portion was not more than 20% of the total consideration, and the share price was not More than HK\$1.8). The Three Bears technology company is principally engaged in the sales and development of mobile applications and software products based on mobile Internet technology and blockchain technology. According to public information, the founding teams of the three bears technology company mainly came from Tencent. The team had developed and launched a variety of explosive card games, such as Happy Landlords and Happy Mahjong. With that portfolio on hand and a large number of registered members, the three bears technology company has an advantage of transforming their business into a

platform based on blockchain technology and have competitive edge compare to others mobile APP companies. The company believes that the characteristics of the blockchain enable it to address defects in traditional financial services such as monopoly on central platforms, opaque processes, and asymmetric information. Madison hopes to further explore blockchain technology in finance, leveraging on the expertise and experience of three bears to create a complete ecosystem including virtual assets transactions, custody, payment and settlement and other financial intermediary services. According to the announcement, three bear technology companies achieved revenue of RMB 109 million in 2017, an increase of 5.06 times year-over-year and a net profit of RMB 70 million, a year-over-year increase of 11.07 times. The valuation of the company’s acquisition is approximately 13.20 times.

Acquisition of cryptocurrency mining company Diginex

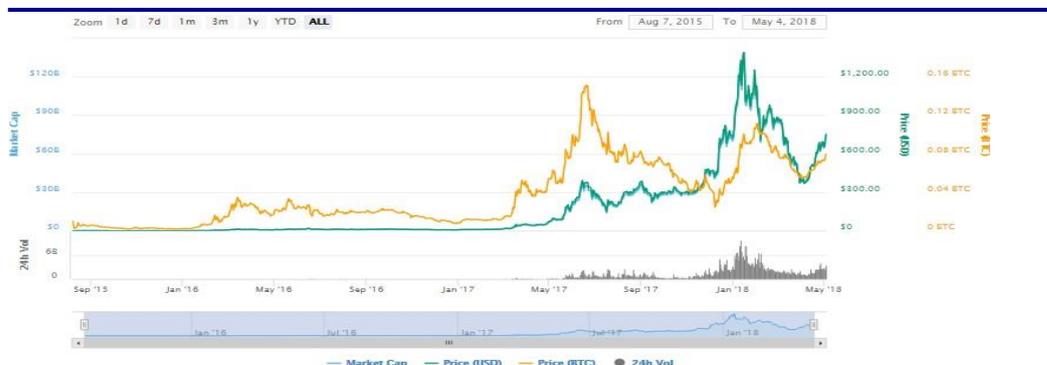
On April 26, 2018, the company announced that it had acquired a 51% stake in Diginex, a cryptocurrency mining company. The transaction price was 60 million US dollars (10 million in cash, and the remaining 50 million was paid by way of issuance of shares at a price of 1.84 Hong Kong dollars per share). At this stage, Diginex has a managed 2.2 MW data center in Asia and Europe. It uses a high-performance GPU (graphics processing unit) mining machine to mine the Ethereum. As one of the two mainstream mining methods, GPU mining machines have certain disadvantages in efficiency compared with ASIC mining machines, but they have relatively longer lifespan and can be used to mine other currencies, so companies can meet market demand. Choose to explore different currencies. As the market's interest in virtual currencies continues to grow, the demand for mining facilities will continue to increase. Due to the lower cost of mining in Europe and the richer sources of renewable energy, Diginex plans to add up to 150 megawatts in the data centers at Europe. According to the announcement, Diginex’s net loss for the year ended 31 March 2018 was approximately HK\$124.83 million.

Chart 3: Top 10 virtual currencies by Market Capitalization

| # | Name | Market Cap | Price | Volume (24h) | Circulating Supply | Change (24h) | Price Graph (7d) |
|----|--------------|-------------------|------------|-----------------|-----------------------|--------------|------------------|
| 1 | Bitcoin | \$160,479,817,380 | \$9,432.70 | \$8,804,700,000 | 17,013,137 BTC | 3.17% | |
| 2 | Ethereum | \$74,717,032,292 | \$753.15 | \$3,604,060,000 | 99,206,308 ETH | 10.73% | |
| 3 | Ripple | \$34,396,579,834 | \$0.878498 | \$604,890,000 | 39,153,851,043 XRP * | 3.17% | |
| 4 | Bitcoin Cash | \$25,929,532,930 | \$1,515.67 | \$1,203,590,000 | 17,107,638 BCH | 4.07% | |
| 5 | EOS | \$14,787,050,460 | \$17.75 | \$2,011,170,000 | 832,904,338 EOS * | -4.97% | |
| 6 | Cardano | \$9,754,463,967 | \$0.376227 | \$291,872,000 | 25,927,070,538 ADA * | 1.31% | |
| 7 | Litecoin | \$9,142,335,711 | \$162.20 | \$544,113,000 | 56,364,238 LTC | 8.88% | |
| 8 | Stellar | \$8,134,241,795 | \$0.437986 | \$69,478,600 | 18,571,921,923 XLM * | -0.17% | |
| 9 | IOTA | \$7,179,637,902 | \$2.58 | \$342,606,000 | 2,779,530,283 MIOTA * | 20.81% | |
| 10 | NEO | \$5,751,265,000 | \$88.48 | \$190,194,000 | 65,000,000 NEO * | 5.74% | |

Data Source: CoinMarketCap

Chart 4: Ethereum prices rebound



Data Source: CoinMarketCap

The first mover in Hong Kong stock market blockchain technology and virtual currency

After completing the above three acquisitions, the infrastructure for Madison's further development in the blockchain has been set. From the downstream, virtual currency exchange extends to the upstream, currency mining. Madison's current business model including the provision of virtual currency trading services, income from trading platform service; using derivative products such as futures, etc. to lock-in the future cash flow of mining virtual currency and collect stable rents and management fees through renting out the mining capacity. In addition, the company believes that HPC (High Performance Computing) has higher profit margins than mining of about 3-4 times. The proportion of HPC business contributing to company's profits will continue to increase. Development of the blockchain industry is reckless, with the leading vision and the first mover advantages, Madison is believed to be paid off in the company's in a near future.

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