

23 April 2025

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTION  
IN RELATION TO  
ACQUISITION OF TARGET COMPANY**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 23 April 2025, 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 otherwise requires.

On 20 March 2025 (after trading hours), the Purchaser and the Vendor entered into the Share Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares which represent 100% of the total issued share capital of the Target Company at the consideration of HK\$1.

As at the Latest Practicable Date, the Vendor is directly wholly-owned by Mr. FANG, who is an executive Director, and hence, the Vendor is an associate of Mr. FANG and a connected person of the Company under the Listing Rules. Accordingly, the Share Transfer Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in relation to the Acquisition (in the case of the consideration ratio, being the aggregate of the consideration for the Acquisition and the capital commitment for the Subscription) exceed 5% but are all less than 25%, the entering into of the Share Transfer Agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and a non-exempt connected transaction under Chapter 14A of the Listing Rules. Therefore, the Acquisition is subject to the reporting and announcement requirements under Chapter 14 and the reporting, announcement and the circular (including independent financial advice) and Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders with respect to the Acquisition.

## **INDEPENDENCE DECLARATION**

We are not associated or connected with the Company, the counterparty of the Acquisition or their respective core connected persons or associates. In the two years immediately preceding the Latest Practicable Date, we did not have any other relationship with or interests in the Company, the counterparty of the Acquisition or their respective core connected persons or associates nor had we acted as an independent financial adviser to other transactions of the Company that could reasonably be regarded as hindrance to our independence as defined under the Listing Rules. Accordingly, we consider we are eligible to give independent advice on the terms of the Acquisition.

## **BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

The Directors have declared in a responsibility statement set out in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the Target Company, the PRC Invested Entity or any of their respective subsidiaries or associates.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

### 1. Background and principal terms of the Acquisition

#### *1.1. Background of the Acquisition*

As set out in the announcement of the Company dated 20 March 2025, the Purchaser and the Vendor entered into the Share Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, which represent 100% of the total issued share capital of the Target Company at the consideration of HK\$1.

The Target Company is a company limited by shares incorporated in Hong Kong on 8 May 2024 with an issued share capital of HK\$10,000. The Target Company is principally engaged in investment holding. As at the Latest Practicable Date, the only investment held by the Target Company is the entire registered capital of the WFOE, which has not been paid up.

The WFOE is a limited liability company established in the PRC on 19 September 2024. The WFOE is principally engaged in investment holding.

On 15 December 2024, the WFOE entered into the PRC Subscription Agreement with, among others, the PRC Invested Entity to subscribe for approximately 3.34% of the equity interest in the PRC Invested Entity at a consideration of RMB100,000,000 (equivalent to approximately HK\$107,000,000) (i.e. the Subscription). Given the PRC Invested Entity is still in the startup and pre-seed stage before starting to generate any profit, the consideration for Subscription was set by the PRC Invested Entity for that round of fundraising based on its funding need and the number of interested investors. The said round of fundraising attracted a total of 14 subscribers (being the WFOE and 13 other independent investors, comprising reputable technology companies involving in digital payment platform, artificial intelligence and data analytics, financial institutions and venture capital funds) who together committed to contribute a total of RMB990 million to the PRC Invested Entity, all of whom agreed to invest into the PRC Invested Entity at the same valuation.

Subject to Completion, the Group will be responsible for the payment of the Subscription and expects to apply its internal resources to fully pay up the capital commitment for the Subscription by mid to late May 2025.



## ***1.2. Principal terms of the Share Purchase Agreement***

### *Date*

20 March 2025 (after trading hours)

### *Parties*

Vendor: GLOBAL VAST LIMITED  
Purchaser: Suanova Technology Limited 香港算豐信息有限公司

### *Subject matter of the Acquisition*

The Sale Shares, namely 10,000 shares of the Target Company, representing 100% of the total issued share capital of the Target Company.

### *Consideration*

The consideration is HK\$1, payable in cash, which shall be paid by the Purchaser on the Completion Date.

### *Conditions precedent*

Completion is conditional upon the satisfaction or, if applicable, waiver of the conditions set out in the section headed “Conditions Precedent” in the Letter from the Board.

### *Completion*

Completion shall take place on the Completion Date.

## **2. Information of the Company, the Purchaser and the Vendor**

### ***2.1. The Company***

The Company is principally engaged in investment holding, and the Group is principally engaged in (i) the manufacture and sale of liquid crystal displays (LCDs), LCD modules, Thin Film Transistor modules and Capacitive Touch Panel modules and (ii) providing AI compute and related services.



## ***2.2. The Purchaser***

The Purchaser is a wholly-owned subsidiary of the Company and is principally engaged in investment holding.

## ***2.3. The Vendor***

Based on information provided by the Vendor, the Vendor is principally engaged in investment holding. The Vendor is directly wholly-owned by Mr. FANG, who is an executive Director.

# **3. Information of the Target Company and the PRC Invested Entity**

## ***3.1. Background information of the Target Company***

The Target Company is a company limited by shares incorporated in Hong Kong on 8 May 2024 with an issued share capital of HK\$10,000. The Target Company is principally engaged in investment holding. As at the Latest Practicable Date, the only investment held by the Target Company is the entire registered capital of the WFOE, which has not been paid up.

The WFOE is a limited liability company established in the PRC on 19 September 2024. The WFOE is principally engaged in investment holding.

On 15 December 2024, the WFOE entered into the PRC Subscription Agreement with, among others, the PRC Invested Entity to subscribe for approximately 3.34% of the equity interest in the PRC Invested Entity (as enlarged by the total subscription under the PRC Subscription Agreement) at a consideration of RMB100,000,000 (equivalent to approximately HK\$107,000,000) (i.e. the Subscription). The said round of fundraising attracted a total of 14 subscribers (being the WFOE and 13 other independent investors, comprising reputable technology companies involving in digital payment platform, artificial intelligence and data analytics, financial institutions and venture capital funds), all of whom agreed to invest into the PRC Invested Entity at the same valuation. The consideration for the Subscription of RMB100 million is determined based on the funding requirements of the PRC Invested Entity with reference to the agreed valuation for all independent investors in this fundraising round, ensuring that the terms were not preferential but standardised across all investors of this fundraising round.

The subscriptions by the 14 investors under the PRC Subscription Agreement is not inter-conditional. There is no lock-up arrangement under the PRC Subscription Agreement.

### ***3.2. Financial information of the Target Group***

Based on the Target Company's unaudited financial statements prepared in accordance with Hong Kong accounting standard for the period from 8 May 2024 (its date of incorporation) to 31 December 2024, the Target Company's net losses (both before taxation and after taxation) are approximately HK\$15,000, and the unaudited net liability of the Target Company as at 31 December 2024 was approximately HK\$5,000.

Relevant financial information of the WFOE is unavailable as the WFOE was only established in September 2024 and has not commenced business since its establishment.

### ***3.3. The PRC Invested Entity***

Based on information provided by the PRC Invested Entity, the PRC Invested Entity is a limited liability company established in the PRC in November 2020 and is principally engaged in the design, development and sale of high-end intelligent network switch chips and offers reliable and cost-effective network infrastructure solutions and products such as cloud-native software and operating system. The PRC Invested Entity's products are primarily positioned in the PRC domestic high-end switch chip market, covering the entire product line.

### ***3.4. Financial information of the PRC Invested Entity***

Based on the information provided by the PRC Invested Entity, (i) as at 31 December 2024, the shareholders' equity of the PRC Invested Entity was approximately RMB611 million; and (ii) during the years ended 31 December 2023 and 2024, the PRC Invested Entity recorded net loss before and after taxation of approximately RMB339 million and approximately RMB397 million respectively.

## **4. Reasons for and benefits of the Acquisition and the Subscription**

The reasons for and benefits of the Acquisition and the Subscription are set out in the Letter from the Board. We noted that the Board sees potential in the PRC Invested Entity's business as an upstream company in the AI compute business, supplying critical hardware and products, and views the Acquisition as a valuable opportunity to bring in future capital income. Further, the Group, positioned as a key intermediary in the AI compute value chain, anticipates and remains open to exploring more in-depth and long-term cooperation with the PRC Invested Entity to create synergies and further integrate the Group's capabilities and capitalise on evolving AI compute market opportunities.

In respect of market outlook, China's AI sector is expected to grow by 40% year-on-year ("YoY") in 2025. According to the January 2025 report by iiMedia Research, China's AI industry has experienced rapid market expansion, growing robustly from 2019 to 2024. The sector reached RMB747 billion in 2024, reflecting a 41.0% YoY increase, and is projected to grow by 40% YoY to RMB1,046 billion in 2025, accounting for 20.9% of the global AI market share. The sector has enjoyed a high compound annual growth rate ("CAGR") of 40% in



2019-2024, and we believe the high growth momentum will continue in the next few years. Another recent study from China Center for Information Industry Development (中國電子信息產業發展研究院) showed that in 2023, the scale of China's core AI industry has reached RMB500 billion, and is expected to exceed RMB1.7 trillion by 2035, translating to a 2023-2035 CAGR of more than 11%. Given the growth opportunity in the China AI sector, we concur with the view of the Board that the Acquisition and the Subscription represent a strategic opportunity for the Group to tap into the rapidly growing AI market.

## 5. Our assessment on the consideration of the Acquisition

As set out in the Letter from the Board, the consideration of the Acquisition represents a nominal value of HK\$1 as the Target Company had a net liability of approximately HK\$5,000 as at 31 December 2024 and the equity interest in and of the WFOE, being its only investment, has not yet been paid up.

In assessing the fairness and reasonableness of the Acquisition, given that, subject to Completion, the Group will effectively be responsible for the payment of the Subscription, we consider that whether the consideration of the Acquisition is fair and reasonable will depend on whether the Subscription is also fair and reasonable and therefore we have compared the consideration of the Subscription of RMB100 million with the implied valuation of the PRC Invested Entity (the “**Implied Valuation**”) as at the date of the Share Transfer Agreement (the “**Valuation Date**”).

### (i) *Valuation methodology of the Implied Valuation*

Based on information provided by the PRC Invested Entity, the PRC Invested Entity is a limited liability company established in the PRC in November 2020 and is principally engaged in the design, development and sale of high-end intelligent network switch chips and offers reliable and cost-effective network infrastructure solutions and products (the “**Investee Business**”).

In determining the Implied Valuation, we considered three widely accepted approaches, namely the market approach, cost approach and income approach. The market approach involves analysing prices recently paid for similar assets, adjusting for differences in condition and utility relative to comparable market assets. The cost approach estimates the cost to reproduce or replace the assets in new condition, considering current market prices and adjusting for depreciation or obsolescence. The income approach converts expected periodic benefits of ownership into an indication of value.

However, there are substantial limitations to using the income approach for the Implied Valuation. The income approach requires detailed operational information and long-term financial projections with observable inputs, which are not readily available due to the entity's status as a start-up with a limited track record. As a result, any projections made would be highly speculative and unreliable. Moreover, the PRC Invested Entity is in its early stages and does not yet have a proven track record of revenue or profit, making it challenging to apply the income approach effectively.



Furthermore, the cost approach does not directly account for the economic benefits contributed by the PRC Invested Entity's business, making it less suitable for capturing the entity's true value. Given these constraints, we adopted the market approach, which provides a more objective valuation by utilising publicly available data.

Under the market approach, we initially considered identifying listed comparable companies principally engaged in the Investee Business to establish valuation multiples. We have identified 16 comparable companies (the "**Comparable Companies**") based on the following criteria: (i) they are principally engaged in design and development of AI related solutions, chips and networking products; (ii) 70% or more of its sales are derived within the PRC; and (iii) they are publicly listed in Hong Kong or the PRC. However, the unique characteristics of each of the listed Comparable Companies, including differences in development stages and target markets, render their market valuations less relevant for assessing the PRC Invested Entity as the PRC Invested Entity is still in its development stage and does not yet have a track record of revenue and is still in the fundraising stage in building up its assets base, thus making the ratios analysis approach, such as price-to-revenue or price-to-book multiples, inappropriate. We have also attempted to identify similar transactions involving start-up AI companies for benchmarking purposes; however, key information, such as the percentage of these start-up AI companies represented by subscription monies and the basis of these subscriptions, is not available, making benchmarking infeasible. For instance, we note the following news reports about investment transactions in start-up AI companies:

Safe Superintelligence ("**SSI**") raised new funding

- Date: 14 April 2025
- Investors: Greenoaks, Alphabet, Nvidia and others
- Details: SSI raised new round of funding just months after its founding. SSI is one of the most high-profile start-up companies in AI model research, due in large part to its founder's impressive track record in predicting the next major developments in AI

Silna Health raised US\$27 million in funding

- Date: 26 March 2025
- Investors: Avenir Growth Capital, TMV, and others
- Details: Silna Health, a startup focused on improving postpartum care, secured US\$27 million in funding. The company offers hybrid maternal care services combining telehealth and in-person visits to reduce maternal mortality and improve outcomes

Nexthop AI launched with US\$110 million to build AI Networking Infrastructure

- Date: 25 March 2025
- Investors: Lightspeed Venture Partners, Kleiner Perkins, WestBridge Capital, Battery Ventures, Emergent Ventures
- Details: Nexthop AI emerged from stealth with US\$110 million to build networking hardware and software tailored for AI infrastructure. The company targets hyperscalers with solutions that enhance AI model training efficiency

Upstart raised US\$50 million investment

- Date: March 2025
- Investors: Progressive Investment Company, Healthcare of Ontario Pension Plan, First National Bank of Omaha
- Details: AI lending platform Upstart raised US\$50 million and announced new partnerships with three banks. The funding will support the expansion of its white-labeled lending technology and AI underwriting system

Based on our best knowledge of public information, these start-up AI companies are still in their pre-revenue development stage and have yet to introduce groundbreaking products to the market. It is common market phenomenon for start-up AI companies to seek early funding to support their growth and development. Based on the above news reports, we note that, as a market practice, details such as investment amount by each investor, the percentage of each start-up AI company represented by these investments, and the basis of investment are not disclosed. We consider that the above investment transactions are determined on arm's length basis, based on the prospect and business potential of these start-up companies and in line with market practice.

In addition, we also consider that the PRC Invested Entity's past operating performance or asset value are not relevant in its valuation analysis since (i) the PRC Invested Entity lacks a proven operating history. It was established in November 2020 and is still in its development stage; (ii) the PRC Invested Entity's past financial information does not reflect its future business prospect while its value is typically tied to future growth potential, innovation, and scalability rather than past performance; and (iii) it is a common market acceptable approach to value a start-up company, such as the PRC Invested Entity, by comparing it to similar companies that have been recently acquired or funded, which reflects what the market is willing to pay rather than relying on historical operating performance. Therefore, we consider that we are able to derive the Implied Valuation which is fair and reasonable based on what the market is willing to pay for the PRC Invested Entity, independent of its historical operating performance. We also consider that the consideration for the Subscription is based on a valuation of the PRC Invested Entity after taking into account of its prospect and business potential, which is in line with the basis of investment in the above investment transactions.



As explained above, we attempted to identify similar transactions involving start-up AI companies as the relevant basis for the Implied Valuation. However, as key information, such as the exact subscription amounts by the investors, percentage of these start-up AI companies represented by subscription monies and the basis of these subscriptions, is not available, we are unable to compute the valuations and determine the basis of the valuations of these start-up companies in those similar transactions. Hence, we are unable to derive the Implied Valuation based on the similar transactions approach. Therefore, we adopted the prior transaction approach after taking into account the fact that (i) the PRC Subscription Agreement, signed on 15 December 2024, presents a timely and arm's length reference point; and (ii) the PRC Subscription Agreement involved the subscription of equity interests in the PRC Invested Entity by 14 unrelated investors (being the WFOE and 13 other independent investors, comprising reputable technology companies involving in digital payment platform, artificial intelligence and data analytics, financial institutions and venture capital funds), all of whom agreed to invest into the PRC Invested Entity at the same valuation. Given that the PRC Subscription Agreement reflects how independent and unrelated investors perceive the business prospect and potential of the PRC Invested Entity as of its signing date and considering that it represents an arm's length transaction, we consider it provides the most direct and reliable basis for assessing the Implied Valuation as at 15 December 2024.

Based on the PRC Subscription Agreement, each RMB100 million subscription money represents approximately 3.34% of the equity interest in the PRC Invested Entity, translating to an Implied Valuation of RMB2,990 million as at 15 December 2024, i.e. the date of the PRC Subscription Agreement.

*(ii) Valuation of the PRC Invested Entity as at the Valuation Date*

In order to adjust the Implied Valuation from 15 December 2024 to the Valuation Date (i.e. 20 March 2025), we capture the market movement between 15 December 2024 and the Valuation Date (i.e. 20 March 2025) with reference to the percentage changes in the share prices of the Comparable Companies, considering that percentage changes in share prices is the most appropriate in capturing the market movement.

In deriving the Implied Valuation at the Valuation Date, we consider that it is appropriate to incorporate market movements between the date of the PRC Subscription Agreement (i.e. 15 December 2024) and the Valuation Date (i.e. 20 March 2025) by adjusting the Implied Valuation as at 15 December 2024 based on the percentage changes in the share prices of the listed Comparable Companies within the sector, which information is publicly available. These companies operate in AI related solutions, chips and networking products, the primary business areas of the PRC Invested Entity. The adjustment reflects changes in market capitalisation observed between 15 December 2024 and 20 March 2025. This approach aligns with widely accepted valuation principles, as market movements capture broader industry trends and prevailing market conditions. By factoring in these changes, the valuation reflects updated market dynamics over this period.



In addition, although the PRC Invested Entity is a private and unlisted company, we consider that it is reasonable to adjust the Implied Valuation of the PRC Invested Entity using percentage changes in the share prices of listed Comparable Companies for the following reasons:

1. share prices of listed companies reflect real-time market dynamics, investor sentiment, and economic conditions. Adjusting the valuation based on these price movements captures broader market trends that likely affect both listed and unlisted companies;
2. while the PRC Invested Entity is unlisted, its valuation relies on comparisons with listed companies operating in similar industries or markets. These listed companies provide a benchmark for assessing changes in value due to external factors like market conditions; and
3. the value of the PRC Invested Entity may not fluctuate daily like listed shares but is still influenced by overall market sentiment and comparable company performance when transactions occur.

Thus, using percentage changes in share prices of listed Comparable Companies is an effective proxy for market movement when adjusting the Implied Valuation. Given that the Investee Business is broadly categorised as operating in the design and development of AI related solutions, chips and networking products, with PRC as its primary market and the Comparable Companies collectively reflect the relevant industry trends and prevailing market conditions, which aligns with our valuation purpose of capturing the overall market movements between 15 December 2024 and 20 March 2025, we consider that the Comparable Companies accurately reflect market trends relevant to adjusting the Implied Valuation. Therefore, we consider the selection of the Comparable Companies is fair and reasonable.

The result of our findings in relation to the Comparable Companies which we believe are exhaustive, is set out in the table below.

Name of company and stock code	Principal business	Market capitalisation (RMB million)		Change (%)
		As at 13 December 2024 (Note 4)	As at 20 March 2025	
Allwinner Technology Co., Ltd. (300458.SZ)	Research and development of, design, manufacture and sell intelligent application SoC, analog components, and wireless interconnect chips in the PRC. Its products are used for industry control, automotive electronics, smart home, robot, smart vision, OTT box, smart hardware, tablet, virtual reality, wireless communication to analog products applications	25,292	36,332	43.7
Beijing Fourth Paradigm Technology Co Ltd (6682.HK) (Note 1, 2)	Sales of self-developed AI platform and other ready-to-use applications and provision of application development and other services in the PRC	22,923	20,367	-11.1
Cambricon Technologies Corporation Limited (688256.SH)	Develop, design, and sell core chips in cloud server, edge computing, and terminal equipment in the PRC	236,231	292,640	23.9
CloudWalk Technology Co. Ltd (688327.SH)	Provision of artificial intelligence solutions to the financial and civil aviation industries in the PRC. It offers human-machine collaborative operating system, artificial intelligence solutions, AI and data middle platform, and credit risk management; and cloud shield financial AI anti-fraud solution, multi-level protection system	14,600	18,209	24.7

Name of company and stock code	Principal business	Market capitalisation (RMB million)		Change (%)
		As at 13 December 2024 (Note 4)	As at 20 March 2025	
Dawning Information Industry Co., Ltd. (603019.SH)	Provision of high-performance computing, server, storage, cloud computing, and big data products	104,867	102,140	-2.6
Hygon Information Technology Co., Ltd, (688041.SH)	Research and development of computing chip products and systems in the PRC. It offers high-performance processors for data centers; mid-range processors for industry customers; and other processors for various scenarios, as well as deep computing processors	287,252	351,866	22.5
Ieit Systems Co., Ltd. (977.SZ)	Provision of information technology infrastructure products, solutions, and services. It also provides industrial Internet of Things and smart retail solutions; disaster recovery storage solutions for medical services; and smart campus storage solutions	67,365	85,825	27.4
Iflytek Co., Ltd. (2230.SZ)	Specialising in AI technologies, focusing on natural language understanding, multimodel intelligence, and cognitive intelligence	112,970	109,889	-2.7
Loongson Technology Corporation Limited (688047.SH)	Development, sale, and service of processors and supporting chips in the PRC. Its products include processors and supporting chip products, and basic software and hardware solutions	62,290	51,464	-17.4



Name of company and stock code	Principal business	Market capitalisation (RMB million)		Change (%)
		As at 13 December 2024 (Note 4)	As at 20 March 2025	
Motorcomm Electronic Technology Co., Ltd. (688515.SH)	Develops, manufactures, and distributes high-speed wired communication chips and produces ethernet physical layer chips for communication, automotive electronics, consumer electronics, monitoring equipment, industrial control, and other fields	7,592	8,280	9.1
Ruijie Networks Co., Ltd. (301165.SZ)	Develops network software products and produces network equipment, network security products, cloud desktop solutions, and other products	28,240	41,820	48.1
Sensetime-W (20.HK) (Note 1, 3)	Sale of advanced AI software platform and related services, sale of AI software-embedded hardware and related services, AIDC service as well as research and development activities in relation to AI technology	50,907	55,177	8.4
Shenzhen Phoenix Telecom Technology Co., Ltd. (301191.SZ)	Develops and sells networks switches, routers, ethernet over cables, and other products. It provides its products for government offices, education, finance, transportation, and energy fields	5,469	8,390	53.4
Suzhou Centec Communications Co., Ltd (688702.SH)	Manufactures and sells switch core chips. It develops and produces software development kit and network operating system	29,676	27,170	-8.4
Yuanjie Semiconductor Technology Co., Ltd. (688498.SH)	Research and development, design, production, and sale of high- speed semiconductor chips for servers and supercomputing	11,733	10,871	-7.4

Name of company and stock code	Principal business	Market capitalisation (RMB million)		Change (%)
		As at 13 December 2024 (Note 4)	As at 20 March 2025	
ZTE Corporation (63.SZ)	Develop and provision of networking chips, 5G infrastructure and cloud-native solutions	146,128	173,154	18.5
		Simple average change		14.4%
		Median		13.8%
		Weighted average change		16.9%

*Note 1:* The market capitalisation of these companies is translated into RMB based on an exchange rate of HK\$1.07 to RMB1.

*Note 2:* Beijing Fourth Paradigm Technology Co Ltd announced a share placement of 27.92 million shares on 7 February 2025, which was completed on 13 February 2025. Such share placement is excluded from the calculation of market capitalisation as at 20 March 2025 such that the comparison of market capitalisation on 15 December 2024 and 20 March 2025 would not be distorted by such share placement.

*Note 3:* Sensetime-W announced a share placement of 1,865 million shares on 11 December 2024, which was completed on 17 December 2024. Such share placement is excluded from the calculation of market capitalisation as at 20 March 2025 such that the comparison of market capitalisation on 15 December 2024 and 20 March 2025 would not be distorted by such share placement.

*Note 4:* 13 December 2024 is the last trading day prior to the signing date of the PRC Subscription Agreement (i.e. 15 December 2024).

We note that some Comparable Companies have experienced significant percentage changes in their market capitalisations. While we are not aware of any particular reason for these fluctuations, we believe they are primarily due to recent positive investor sentiment towards AI development in the PRC as driven by several factors such as (i) accelerated AI adoption: more Chinese companies plan to increase AI investment, focusing on generative AI to boost operational efficiency and competitiveness; (ii) DeepSeek's impact: the launch of DeepSeek's AI model has triggered widespread adoption, reducing deployment costs and driving innovation across industries; (iii) Government support: the PRC Government has prioritised AI in its strategy for technological breakthroughs; and (iv) corporate investments: major companies have announced significant increases in capital expenditures for AI infrastructure. This aligns with the purpose of capturing the overall market movements to appropriately adjust the Implied Valuation. As such, we do not identify any outlier warrant exclusion from our analysis. Among the 16 Comparable Companies, the percentage change in the market capitalisation of the Comparable Companies from 15 December 2024 to 20 March 2025 ranged from approximately -17.4% to approximately 53.4% with a simple average change of approximately 14.4% and a weighted average change of approximately 16.9%.

The weighted average of the percentage change of the market capitalisation of the Comparable Companies of approximately 16.9% was adopted and multiplied by the Implied Valuation based on the PRC Subscription Agreement of approximately RMB2,990 million to determine the Implied Valuation as at the Valuation Date of approximately RMB3,494 million.

#### *Our view*

Given that (i) the Subscription represents the original capital commitment to the PRC Invested Entity pursuant to the PRC Subscription Agreement dated 15 December 2024; (ii) the PRC Subscription Agreement was also entered into with 13 other reputable independent investors, all of whom have agreed to invest into the PRC Invested Entity at the same valuation; and (iii) the Implied Valuation from the Subscription of approximately RMB2,990 million is comparable to and represents a discount of approximately 14.4% to the Implied Valuation of approximately RMB3,494 million as at the Valuation Date, we are of the view that the Subscription is fair and reasonable so far as the Company and the Shareholders are concerned and is in the interests of the Shareholders and the Company.

#### **6. Financial effects on the Group**

Upon completion of the Acquisition and the Subscription, the PRC Invested Entity will become a financial asset at fair value in the financial statement of the Group.

Since the Subscription will be fully satisfied by cash, the cash level of the Group will decrease immediately upon the payment of the Subscription. As at 30 September 2024, the Group's bank balances and cash was approximately HK\$138 million based on the interim report of the Company for the six months ended 30 September 2024. After taking into account of the receipt of net proceeds of approximately HK\$2.2 billion from the disposal of 127,578,590 Nantong Jianghai Shares (as disclosed in the Company's announcement dated 13 January 2025), the final dividend in respect of the year ended 31 March 2024 and a special dividend declared at the Board meeting held on 22 January 2025 in an aggregate amount of approximately HK\$47 million and approximately HK\$1.7 billion, respectively and based on the assumption that there is no material adverse change in such position since 30 September 2024, the Group has had sufficient internal resources to fulfil its capital commitment to the Subscription and the Directors expected that there would not be material adverse effect on the cash flow of the Group as a result of the Subscription.

It should be noted that the analysis above is for illustrative purposes only and does not purport to represent how the financial position of the Group would be upon completion of the Acquisition and the payment of the Subscription.



## CONCLUSION AND RECOMMENDATION

Based on the above principal factors and reasons, in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- (a) the consideration of the Acquisition represents a nominal value of HK\$1 as the Target Company had a net liability of approximately HK\$5,000 as at 31 December 2024 and the equity interest in the WFOE, being its only investment, has not yet been paid up;
- (b) the WFOE entered into the PRC Subscription Agreement with, among others, the PRC Invested Entity to subscribe for approximately 3.34% of the equity interest in the PRC Invested Entity at a consideration of RMB100,000,000 (equivalent to approximately HK\$107,000,000) (i.e. the Subscription). Subject to Completion, the Group will be responsible for the payment of the Subscription;
- (c) the Subscription represents the original capital commitment to the PRC Invested Entity pursuant to the PRC Subscription Agreement, which was entered into with 13 other reputable independent investors, all of whom have agreed to invest into the PRC Invested Entity at the same valuation;
- (d) the Implied Valuation from the Subscription of approximately RMB2,990 million is comparable to and represents a discount of approximately 14.4% to the Implied Valuation of approximately RMB3,494 million as at the Valuation Date and is fair and reasonable;
- (e) we concur with the view of the Board that the Acquisition and the Subscription represent a strategic opportunity for the Group to tap into the rapidly growing AI market; and
- (f) subject to Completion, the Group expects to apply its internal resources to fully pay up the capital commitment for the Subscription. Based on the latest available financial information, the Group has had sufficient internal resources to fulfil its capital commitment to the Subscription and the Directors expected that there would not be material adverse effect on the cash flow of the Group as a result of the Subscription,

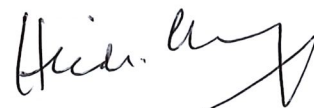
we consider that (i) while the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole, and (ii) the terms of the Acquisition are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned and the entering into of the Share Transfer Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

We advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM in relation to the Acquisition pursuant to the Share Transfer Agreement.

Yours faithfully,  
For and on behalf of  
**Ballas Capital Limited**



**Alex Lau**  
*Managing Director*



**Heidi Cheng**  
*Managing Director*

*Note:* Both Mr. Alex Lau and Ms. Heidi Cheng of Ballas Capital Limited have been responsible officers of Type 6 (advising on corporate finance) regulated activity since 2003.