25 April 2025

To the Independent Board Committees and the Independent Shareholders,

Dear Sirs and Madams,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE EQUITY SALE AND PURCHASE AGREEMENTS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of, inter alia, the Equity Sale and Purchase Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board contained in the circular dated 25 April 2025 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise specified herein.

With reference to the announcement dated 24 January 2025, Ms. Niu, being a controlling shareholder of the Company, is the ultimate beneficial owner of the Vendor. Therefore, the Vendor is an associate of Ms. Niu and a connected person of the Company. Accordingly, the Acquisition pursuant to the Equity Sale and Purchase Agreements constitute a connected transaction of the Company under Chapter 20 of GEM Listing Rules.

Upon the Completion, the Company will hold 30% equity interest in the Target Company and the financial statements of the Target Company will be taken into account by the Group by ways of equity method of accounting.

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THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all three independent non-executive Directors, namely Mr. Kam Hou Yin, John, Ms. Chong Kan Yu and Mr. Qi Zhenping, has been established to advise the Independent Shareholders as to (i) whether the terms of the Equity Sale and Purchase Agreements are fair and reasonable; (ii) whether the Acquisition is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Acquisition is in the interests of the Company and its shareholders as a whole; and (iv) the voting action that should be taken by the Independent Shareholders. We, Hooray Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from and not connected to the Group, the Vendor, the Target Company and their respective shareholders, directors or chief executives, or any of their respective associates or any relevant parties in connection with the Equity Sale and Purchase Agreements.

Except for being appointed as independent financial adviser to the Company in respect of this Acquisition, we have not acted as an independent financial adviser and have not provided any other services to the Company during the past two years.

As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could reasonably be regarded as hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Acquisition, and accordingly, are eligible to give independent advice and recommendations on the Equity Sale and Purchase Agreements and the transactions contemplated thereunder.

Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information, statements, opinions and representations provided to us by the Company, its representatives, its management (the "**Management**") and the Directors for which they are solely and wholly responsible and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete as at the date of the Circular. We have reviewed documents including, among other things, (i) the Equity Sale and Purchase Agreements; (ii) the annual report of the Company for the year ended 31 December 2022 (the "**Annual Report 2022**"); (iii) the annual report of the Company for the year ended 31 December 2023 (the "**Annual Report 2023**"); (iv) and the interim report of the Company for the six months ended 30 June 2024 (the "**Interim Report 2024**"); (v) the Valuation Report prepared by the Independent Valuer; and (vi) the Circular and the information as set out in the Circular.

We have assumed that all statements of belief, opinion and intention made by the Company, its representatives, the Management and the Directors as set out in the Circular were reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. The Directors confirmed that they have provided us with all information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of such information and the information contained in the Circular to provide a reasonable basis of our opinion.

Our review and analyses were based upon the information and facts contained or referred to in the Circular, the information provided by the Company and the relevant public information. We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice. In addition, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Directors, the Management and/or representatives of the Company. We, however, have not conducted any independent in-depth investigation into the business, affairs, financial position or prospects of the Group and the Target Company nor we have carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the Equity Sale and Purchase Agreements, we have taken into consideration the following principal factors and reasons.

1. Information of the Group

The Group is principally engaged in various business segments covering: (i) investments in property development projects, (ii) operation of financial services platform, (iii) provision of entrusted loans and other loan services, financial consultation services, and (iv) provision of finance lease services, mainly in the PRC. Despite the Group is principally engaged in various business segments, for the year ended 31 December 2023 and the six months ended 30 June 2024, the Group recorded segment revenue from (i) operation of financial services platform, and (ii) provision of entrusted loan services and financial consultation services.

On 29 June 2022, the Group completed a very substantial disposal (the "**VSD**") in relation to the disposal of certain subsidiaries mainly invested in, among others, property development projects, details of it were set out in the circular of the Company dated 10 May 2022 (the "**VSD Circular**"). According to the VSD Circular, the Group had no plan to change its principal businesses. Despite the remaining group immediately after completion of the VSD (the "**Remaining Group**") would carry on identifying appropriate opportunities of the investment in property development projects, immediately after completion of the VSD, the Remaining Group continued to mainly engage in the operation of the financial service platform (as part of the fin-tech platform) and the provision of consultation services.

According to the Annual Report 2022 and the Annual Report 2023, the Group had been actively seeking various business opportunities to expand and diversify the Group's revenue sources. In particular, various clients and counterparties of the Group indicated to the Group's management that data security is becoming increasingly critical in the financial services industry, and they suggested that offering data security services could add value to the Group's existing financial service platform.

Reference is made to the voluntary announcement of the Company dated 19 September 2023, the Group invested approximately HK$1.5 million to HK$2.0 million for research and development in the new data related business, and the Group intended to develop an integrated product featuring mobile apps, data encryption enabled, decentralised and independent security hardware. On 23 February 2024, the Company announced that it was in the progress of planning and developing a new service platform and leverage the expertise of its financial technology service platform to capture new market opportunities.

Set out below is a summary of the Group's financial information as extracted from the Company's latest published (i) Interim Report 2024; and (ii) Annual Report 2023:

Summary of the Group's financial performance

	For the year ended 31 December		For the six months ended 30 June	
	2022	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue				
Operation of financial services platform	75,225	83,408	24,015	77,682
Provision of entrusted loan, pawn loan, other loan services and financial consultation services	1,446	3,899	1,432	6,480
Total revenue	76,671	87,307	25,447	84,162
Other income/(expenses), net	(4,548)	260	8	246
Employee benefit expenses	(7,272)	(5,210)	(3,365)	(2,280)
Other administrative expenses	(52,882)	(52,338)	(5,608)	(39,589)
(Loss)/reversal of allowance on financial assets	(2,377)	(2,966)	2,634	(4,359)
Finance costs	(72)	(48)	(105)	(83)
Profit before income tax expense	9,520	27,005	19,011	38,097
Income tax expense	(6,700)	(10,143)	(4,987)	(10,520)
Profit for the year	2,820	16,862	14,024	27,577
Profit for the year attributable to:				
– Owners of the Company	2,605	16,926	14,009	27,582
– Non-controlling interests	215	(64)	15	(5)
	2,820	16,862	14,024	27,577

As set out in the Interim Report 2024, the revenue of the Group increased by approximately 230.7% from approximately RMB25.4 million for the six months ended 30 June 2023 to approximately RMB84.2 million for the six months ended 30 June 2024. The increase was primarily due to the increase in platform service income and the entrusted loan service income during the period. The profit attributable to the owners of the Company increased by approximately 96.6% from approximately RMB14.0 million for the six months ended 30 June 2023 to approximately RMB27.6 million for the six months ended 30 June 2024. The increase was primarily due to increase in revenue from the financial service platform business.

As set out in the Annual Report 2023, the revenue of the Group increased by approximately 13.9% from approximately RMB76.7 million for the year ended 31 December 2022 to approximately RMB87.3 million for the year ended 31 December 2023. The increase was mainly due to the increase in platform service income. The profit attributable to the owners of the Company increased by approximately 497.9% from approximately RMB2.6 million for the year ended 31 December 2022 to approximately RMB16.9 million for the year ended 31 December 2023. The increase was mainly due to the increase in revenue from the financial service platform business.

Summary of the Group's consolidated financial position

As set out in the Interim Report 2024, the Group recorded (i) the unaudited total assets and net assets of approximately RMB174.4 million and RMB86.8 million, respectively; (ii) the unaudited cash and cash equivalents of approximately RMB19.2 million; and (iii) nil borrowings, as at 30 June 2024.

It is noted from the Letter from the Board that the consideration of the Acquisition shall be satisfied by way of (i) cash consideration of HK$7.0 million, and (ii) issue of the Promissory Notes in the principal amount of HK$20,600,000.

2. Information of the Target Company

The Target Company is a company incorporated on 28 December 2020 under the laws of Hong Kong with limited liability. The Target Company is principally engaged in development and sales of cybersecurity systems to customers across Hong Kong, PRC and Southeast Asia. Its main product is a series of self-developed encryption systems consisting of certain hardware keys and software.

According to the annual returns provided by the management, the Target Company is wholly owned by the Vendor.

Set out below is the audited and unaudited financial information of the Target Company for each of the years ended 31 December 2023 and 2024, respectively, which was prepared in accordance with HKFRS:

	For the year ended 31 December	
	2023	**2024**
	HK$'000	*HK$'000*
	(audited)	(unaudited)
Revenue	11,762	18,720
Profit before taxation	496	9,515

Revenue of the Target Company increased by approximately 59.2% from approximately HK$11.8 million for the year ended 31 December 2023 to approximately HK$18.7 million for the year ended 31 December 2024.

Profit before taxation of the Target Company increased by approximately 19.2 times from approximately HK$0.5 million for the year ended 31 December 2023 to approximately HK$9.5 million for the year ended 31 December 2024.

As at 31 December 2024, the total assets and the net asset value based on the unaudited financial information of the Target Company were approximately HK$23,226,000 and HK$10,271,000, respectively.

3. Reasons for and benefits of the Acquisition

We have summarised the reasons for and benefits of the Acquisition from the Letter from the Board below.

Synergies with core business operations

According to the Annual Report 2023 and Interim Report 2024, the majority of the Group's revenue was derived from its operation on financial service platform. As a financial platform operator, the Group manages sensitive and confidential information, making cybersecurity a crucial aspect of its operation. By acquiring the Target Company focusing on cybersecurity products, the Group can leverage the Target Company's expertise, such as its edge security computing and encryption algorithm technology, to enhance the data protection and security infrastructure of its financial service platform. This will not only improve customer trust and confidence but also reduce the risk of cyber threats. Further, the Group can integrate the IoT devices offered by the Target Company into its ecosystem. This integration can enhance the functionality of its financial service platform.

Diversification of income sources

By leveraging the Target Company's cutting-edge encryption algorithm and edge computing technologies, the Group can enhance the functionality and security of its financial platform. This will enable the Group to offer a broader range of innovative and secure financial products to its customers. Additionally, the Target Company has a different customer base than the Group. Therefore, the Group can gain access to a new income stream that is derived from a new customer base by sharing the operating results of the Target Company.

Strengthening technological capabilities

As advised by the management of the Company, the Target Company has appointed Professor CW. Brian Kei from Hong Kong Polytechnic University as the technical advisor. Professor CW. Brian Kei has vast experience in launching new innovative businesses, automation systems and online securities trading platforms. He is actively involved in industry communities, and has made significant contribution in the developments and collaboration within the financial services industry. Additionally, the Target Company employs a team of 18 information technology engineers and holds several patents for its self-developed systems which emphasize the security of data through advanced encryption technologies. The collaboration resulting from this Acquisition could strengthen the Group's technical competence, enabling the Group to develop enhanced security features for its customers, and thus, in turn, would potentially help the Group to attract new clients and to retain existing ones.

Strategic positioning in high-growth industry

The rapid growth in artificial intelligence, machine learning, and related technologies has driven significant demand for cybersecurity solutions, such as data encryption and data security. The acquisition of the Target Company specialising in edge security computing and encryption algorithm technology positions the Group strategically within this high-growth market. It enables the Group to stay ahead of cybersecurity threats and technological advancements, ensuring it can adapt to changing market demands, regulatory requirements, and customer expectations.

Imminent Need to Enhance the Existing Platform with Data Security Services

According to Annual Report 2022 and Annual Report 2023, various clients and counterparties of the Group suggested that offering data services could add value to the Group's existing financial service platform. In response to this feedback, the Group has spent approximately HK$1.5 million to HK$2.0 million for research and development in this new data-related business segment. Further, the Group intended to develop an integrated product featuring mobile apps, data encryption enabled, decentralized and independent security hardware.

Based on our discussions with the Company, the Company recognises the necessity of enhancing its technical capabilities and expertise to support the platform development as well as fulfilling the customers' expectation. By entering into this Acquisition and despite the Target Company being an associate company, the Company believes it can bring synergies with the core operation as abovementioned, and strengthen its technological capabilities through collaboration with the professional engineering team, led by Professor CW. Brain Kei, in the Target Company.

As announced on 29 October 2024, the Company entered into a non-legally binding memorandum of understanding with the Target Company in relation to the investment cooperation. The Company and the Target Company were in the process of discussing possible ways of cooperation. The Company's cooperation with the Target Company includes, but is not limited to, business cooperation, technical exchange, equity investment, capital increase and share expansion.

Based on our understanding from the management, after entering into the memorandum of understanding, the Company interacted with the technicians of the Target Company to understand the technology of the products and walked through the operation and products of the Target Company. Further, the Company has gained access to the updated financial information of the Target Company to understand its latest operation status. The Company believed that the Target Company was with unique technology and products in Hong Kong and the management of the Company could not locate other similar target from independent third parties willing to have similar cooperation with the Group during such period.

According to the letter from the Board, the acquisition of 30% shares of the Target Company is through commercial negotiation. By obtaining such shares, the Company could obtain a significant influence over the Target Company, while the original ultimate beneficial owner, Ms. Niu, will retain controlling ownership.

Based on our discussion with the management, the Vendor has indicated that full cash payment was not a pre-requisite, and the 2-year Promissory Notes was agreeable by the Vendor. Such settlement method will allow the Company to preserve financial resources for other strategic initiatives.

Additionally, the Company currently has no external debt, and the negotiated interest rate for the Promissory Notes is notably lower than the rates offered by reputable banks in Hong Kong. Taking into account (i) the settlement arrangement allows the Company to preserve financial resources for other strategic initiatives, (ii) the low interest rate compared to market rates, and (iii) the strategic benefits brought by the acquisition to the Company, the Directors are of the view that, and we concur, the acquisition, along with the proposed settlement method, is fair, reasonable, and in the best interests of the Company and its shareholders as a whole.

4. Overview and Prospect of Data Security Business

According to the McKinsey & Company's article "*New survey reveals $2 trillion market opportunity for cybersecurity technology and service providers*" (dated 27 October 2022), the potential market for cybersecurity is enormous, estimated at USD1.5 to USD2.0 trillion, but current solutions only address about 10% of this opportunity. While the market won't reach this size immediately, there's a huge opportunity for providers and investors to innovate, improve technology, and simplify solutions to better serve customers.

With the market statistics, it is expected that the data security business in Hong Kong, PRC and Southeast Asia will continue to grow in the future and the prospect is optimistic. Therefore, we are of the view that the Acquisition provides the Group an opportunity to invest in high growth cybersecurity industry. Based on the above, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

5. Principal Terms of the Equity Sale and Purchase Agreements

The principal terms of the Equity Sale and Purchase Agreements are summarised as follows:

Date	:	24 January 2025
Parties	:	(1) the Company, as the purchaser; and (2) the Vendor, as the vendor and Ms. Niu is the ultimate beneficial owner.
Subject matter	:	The Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, 30% of the issued share capital of the Target Company.
Consideration	:	HK$27,600,000, which shall be satisfied in the following manner: (i) cash consideration of HK$7,000,000 shall be payable within five business days from the date of the Equity Sale and Purchase Agreements as a deposit and partial payment; and (ii) issue of a set of Promissory Notes on the Completion Date in the sum of HK$20,600,000 to the Vendor.

Basis of the Consideration	:	The Consideration was determined and arrived with reference to, among other things, the Valuation Report of the Target Company prepared by Peak Vision, being an independent professional valuer. According to the Valuation Report, the appraised value of 30% of the Target Company, which is calculated by using market approach, is approximately HK$27,617,000 as at 31 December 2024.

5.1 Basis of the Consideration

The Consideration of the Equity Sale and Purchase Agreements was determined and arrived at after arm's length negotiation by the parties, with reference to the Valuation Report of the Target Company prepared by Peak Vision. The appraised value of the 30% equity interest of the Target Company, which is calculated by using market approach, is approximately HK$27,617,000 as at 31 December 2024.

Having considered that (i) the Consideration of HK$27,600,000 is slightly lower than the appraised value of the 30% equity interest of the Company as determined in the Valuation Report, and (ii) our work done on the Valuation Report (as detailed below), we are of the view that the Consideration for the Acquisition is fair and reasonable.

Further, we note that the Consideration is higher than the proportionate net asset value of the Target Company as at 31 December 2024. Having said that, asset-light industry is typically valued by its earnings, and asset-intensive industry is typically valued at the physical and/or the tangible assets on books. Technology companies, such as the Target Company, are typically regarded as asset-light industry, since they derive value from its technical competence, software developed and intellectual properties owned which are not typically recorded on books as an asset. As such, we understand from the Board that, and we concur, the revenue and/or income of the Target Company is not primarily driven by its net asset value, and thus its net asset value is not an appropriate benchmark to determine the value of the Consideration in a fair and reasonable manner.

5.2 Our work done on the Valuation Report

With a view to evaluate the basis of determination of the appraised value of the Target Company, we have reviewed and discussed the contents of the Valuation Report with the representatives of Peak Vision Appraisals Limited (the "**Independent Valuer**").

As part of our work performed, we have reviewed the key assumptions adopted by the Independent Valuer as set out under the section headed "10.0 Valuation Assumptions" in the Valuation Report. We understand from the Independent Valuer that these key assumptions are in line with other similar valuations conducted by the Independent Valuer and are therefore considered to be reasonable.

We have discussed with the representatives of the engagement team of the Independent Valuer as to their expertise, valuation experience, their scope of work and valuation procedures conducted in relation to the valuation of the Target Company. We have reviewed and enquired into the qualifications and experience of the Independent Valuer in relation to the preparation of Valuation Report, and noted that the Independent Valuer is a firm specialising in provision of valuation services for its clients engaging in different industries for various purposes.

In relation to the expertise of the Independent Valuer, we noted that the signor of the Valuation Report, Mr. Nick C. L. Kung is a member and a Registered Valuer of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor (General Practice) who has over 20 years of experience in the professional valuation field. In assessing the Independent Valuer's experiences, we have obtained information on the Independent Valuer's track records on other valuations and noted that the Independent Valuer had acted as the valuer for a wide range of public companies listed in Hong Kong for similar transactions. In addition, we have also obtained the information relevant to the qualifications and credentials of the team members involved in this valuation exercise. As such, we are of the view that the Independent Valuer is qualified, experienced and competent in performing business valuation in respect of the valuation of the Target Company.

In relation to the scope of work, we noted from the engagement letter entered into between the Company and the Independent Valuer that the scope of work was appropriate for the Independent Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer in the Valuation Report. Having considered the above, we are of the view that the Independent Valuer are qualified, experienced and competent in performing business valuations and providing a reliable opinion in respect of the valuation of the Target Company.

We have also enquired with the Independent Valuer as to its independence from the Company and the parties to this Acquisition and were given to understand that the Independent Valuer is an independent third party of the Company, the parties to this Acquisition and their connected persons. The Valuer also confirmed to us that it was not aware of any relationship or interest between itself, the Company, any parties to this Acquisition or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Independent Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the valuation, no arrangements exist whereby it will receive any fee or benefit from the Company, the parties to this Acquisition and their associates. Given the above, we are of the view that the Independent Valuer is independent from the Company in respect of the valuation of the Target Business.

Valuation Methodology

In arriving at the appraised value of the Target Company, the Independent Valuer has considered three approaches, income approach, asset approach, market approach.

Based on our understanding from the Independent Valuer, the income approach was considered to be inappropriate as (i) the long-term forecasts inherently rely on various subjective assumptions, which may not be sustainable over time, (ii) the Target Company's profit history has been relatively volatile, making it challenging to derive reliable future cash flow projections, and (iii) preparing financial projections for the Target Company involves significant subjective judgement and uncertainties, which could lead to an unreliable result.

The asset approach is also considered to be inappropriate as (i) the valuation of the Target Company should reflect its status as a going concern, and the asset approach, however, typically provides a static snapshot of a company's value based on its assets at a specific point in time, which does not account for its ongoing operations, (ii) the simple summation of all the assets fails to capture the synergies and future economic benefits generated by the business as a whole.

In contrast, the market approach is considered to be the most appropriate as (i) this approach relies on observable market data, reducing the need for subjective assumptions, (ii) it incorporates current market sentiment and trends, providing a more realistic reflection of the Target Company's value in the context of its industry and peers, and (iii) the market approach produces a more objective and less biased valuation of the Target Company by making reference to the comparable companies and their multiples.

The market approach can be applied through two commonly used methods, namely the guideline public company method and the comparable transaction method. The comparable transaction method utilises information on transactions involving assets and/or businesses that are the same as or similar to the subject assets and/or businesses. However, for this particular valuation exercise, it is difficult to acquire sufficient and timely information of such transactions. Therefore, in this valuation exercise, the market value of the 30% equity interest in the Target Company is developed through the guideline public company method.

We have conducted independent research and, on a best-effort basis, reviewed circulars published on the website of the Stock Exchange which satisfy the following criteria, including but not limited to: (i) transactions involving the acquisition of a privately owned company with business operations similar to that of the Target Company involving sales and development of cybersecurity systems; (ii) majority of the subject company's revenue being derived from Hong Kong and/or the PRC; (iii) the subject company was profit-making; and (iv) the circulars despatched by companies listed on the Main Board or GEM of the Stock Exchange from 1 January 2024 up to the Valuation Date, representing a twelve-month period which we consider to be recent and reasonable. Based on our independent research, there was no comparable transaction that met all of the above criteria. Given that no recent comparable transaction could be identified, we concur with the Independent Valuer that the comparable transaction method is not appropriate for the valuation of the Target Company.

Having considered the above, we concur with the Independent Valuer that the guideline public company method under market approach is the most appropriate method for appraising the fair value of the Target Company.

Based on our understanding from the Independent Valuer, the guideline public company method requires research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of the 30% equity interest in the Target Company. In arriving the appraised value of 30% equity interest in the Target Company, the Independent Valuer has considered the following commonly used benchmark multiples:

Benchmark multiple	**Abbreviation**	**Analysis**
Price-to-Earnings	P/E	Inappropriate as P/E incorporates the effect of leverage (interest expense reduces net income) and other non-operating items that could potentially distort the results.
Price-to-Book	P/B	Inappropriate as P/B does not account for the profitability of the business, and fails to reflect the true earnings power of value of the business
Price-to-Sales	P/S	Inappropriate as P/S focuses on the top line revenue of a company without taking into account profitability and cost structure.
Enterprise Value-to-Earnings before interests and taxes	EV/EBIT	Adopted, as (i) earnings is the primary determinant of value, and (ii) enterprise multiples are useful for comparisons across comparable companies with different capital/asset structures because they exclude the distorting effects of individual companies' capital/asset levels, and the ratio tends to be more stable

In light of the above, we concur with the view of the Independent Valuer that EV/EBIT is an appropriate and common benchmark multiples to determine the appraised value of 30% equity interest in the Target Company.

In selecting appropriate comparable companies, the Independent Valuer has selected (i) companies that were listed either in Hong Kong, PRC or Taiwan, (ii) public companies that were being listed on its stock exchange for at least two years, (iii) the companies are principally engaged in cybersecurity industry, and (iv) at least 80% of its revenue contributed by the business similar to the business of the Target Company, whereas any listed company that was in liquidation or was incurring operating loss is excluded.

Company Name (stock code)	Listing venue	Date of listing	Principal activities	Percentage of revenue contributed by the business similar to the Target Company	EV/EBIT (times)
Venustech Group Inc (002439.SZ)	Shenzhen Stock Exchange	June 2010	Provision of network security solutions, including threat detection, data protection, cloud security, and security management services, to governments, enterprises, and financial institutions.	99%	66.7
Hangzhou DPtech Technologies Co Ltd (300768.SZ)	Shenzhen Stock Exchange	April 2019	Provision of network security solutions, including firewall systems, intrusion detection, data security, and cloud security products, to enterprises, governments, and telecom operators.	80%	79.7
Beijing ABT Networks Co Ltd (688168.SS)	Shanghai Stock Exchange	September 2019	Provision of network security solutions, including intrusion prevention, threat detection, and cloud-based security services, primarily for government, finance, and enterprise sectors.	100%	231.5 *(outlier)*
Integrity Technology Group Inc (688244.SS)	Shanghai Stock Exchange	October 2022	Provision of cybersecurity solutions, including data security, endpoint protection, and threat intelligence, primarily serving government, finance, and enterprise clients.	100%	114.1 (outlier)

Company Name (stock code)	Listing venue	Date of listing	Principal activities	Percentage of revenue contributed by the business similar to the Target Company	EV/EBIT (times)
Acer Cyber Security Inc (6690.TWO)	Taiwan Stock Exchange	July 2018	Provision of cybersecurity solutions, including threat detection, endpoint protection, and managed security services, primarily for enterprises and government organisations.	88%	25.3
Koal Software Co Ltd (603232.SS)	Shanghai Stock Exchange	April 2017	Provision of information security solutions, including encryption, data protection, and network security products, primarily for government, finance, and enterprise sectors.	100%	349.0 *(outlier)*

Based on our understanding from the Independent Valuer, these six comparable companies is an exhaustive list of comparable companies based on exhaustive search by the Independent Valuer on the Refinitiv database, which is widely regarded as a reputable, renowned and long-established provider of financial market data and closely tied to its former parent company, Thompson Reuters. These comparable companies share common features with high similarity with the Target Company that they are all software companies offering information security products to protect data and ensure information safety. For details of the background information of each of the comparable companies, please refer to "*Appendix I – Appendix A – Description of Guideline Public Companies*" in this Circular.

Based on our understanding from the Independent Valuer, the EV/EBIT multiple should generally not exceed 100 times before any adjustments are applied. Having considered that the unreasonably high multiples may indicate potential speculative growth expectation which may not be sustainable and could resulting in overvaluation, the Independent Valuer is of the view that, and we concur, it is more appropriate to exclude those comparable companies with unadjusted EV/EBIT over 100 times for the sake of prudence. Accordingly, the Independent Valuer has utilised EV/EBIT multiples below 100 times and incorporated appropriate adjustment factors for further analysis.

In this regard, we are of the view that the exclusion of unreasonable high multiples by the Independent Valuer to avoid potential overvaluation is fair and reasonable.

Size and region adjustments

Based on our understanding from the Independent Valuer, as the businesses of the comparable companies are located in different regions, they are thus exposed to different macroeconomic and market risks. Moreover, the comparable companies are often of significantly different size from the Target Company. Larger companies are generally perceived as bearing lower risk in terms of business operation and financial performance, therefore they deserve higher valuation multiples. On the other hand, smaller companies are generally perceived as riskier and therefore they are usually having lower valuation multiples.

Set out below is the major differences between the Target Company and the three comparable companies (not being identified as outlier) in terms of size and region:

Company name (stock code)	**Size**	**Region**
Venustech Group Inc (002439.SZ)	Revenue of approximately RMB3.3 billion (or HK$3.6 billion) to RMB3.9 billion (or HK$4.2 billion) for the year ended 2024; Net loss attributable to owners of the Company of approximately RMB146 million (or HK$158 million) to RMB246 million (or HK$266 million) for the year ended 2024; Total assets of approximately RMB13.8 billion (or HK$14.9 bilion) as at 30 September 2024; and Net assets of approximately RMB11.5 billion (or HK$12.4 billion) as at 30 September 2024.	Revenue: all derived from the PRC; and Place of business: PRC

Company name (stock code)	**Size**	**Region**
Hangzhou DPtech Technologies Co Ltd (300768.SZ)	Revenue of approximately RMB1.0 billion (or HK$1.1 billion) for the year ended 2023; Net profit attributable to owners of the Company of approximately RMB126.6 million (or HK$136.7 million) for the year ended 2023; Total assets of approximately RMB3.7 billion (or HK$4.0 billion) as at 30 September 2024; and Net assets of approximately RMB3.2 billion (or HK$3.5 billion) as at 30 September 2024.	Revenue: more than 99.9% derived in PRC; less than 0.1% in Hong Kong and overseas; and Place of business: PRC
Acer Cyber Security Inc (6690.TWO)	Revenue of approximately NTD2.1 billion (or HK$0.8 billion) for the year ended 2024; Net profit attributable to owners of the Company of approximately NTD230.1 million (or HK$55.2 million) for the year ended 2024; Total assets of NTD4.7 billion (or HK$1.1 billion) as at 31 December 2024; and Net assets of NTD3.0 billion (or HK$0.7 billion) as at 31 December 2024.	Revenue: 99.7% derived from Taiwan; and 0.3% derived from other jurisdictions; and Assets: more than 99.9% based in Taiwan, less than 0.1% based in other jurisdictions.

Company name (stock code)	Size	Region
Target Company	Revenue of approximately HK$18.7 million for the year ended 31 December 2024; Net profit of approximately HK$9.5 million for the year ended 31 December 2024; Total assets of approximately HK$23.2 million as at 31 December 2024; and Net assets of approximately HK$10.3 million as at 31 December 2024.	Revenue: mainly derived from Hong Kong; and Place of business: Hong Kong.

Thus, the base multiple, EV/EBIT, of each comparable companies was adjusted into the adjusted EV/EBIT multiple (the "**Adjusted EV/EBIT**") to reflect the differences in size and location between the comparable companies and Target Company.

Company name (stock code)	EV/EBIT *(times)*	Size differential *(Note 1)*	Region differential *(Note 2)*	Adjusted EV/EBIT (times) *(Note 3)*
Venustech Group Inc (002439.SZ)	66.7	5.49%	–0.14%	14.6
Hangzhou DPtech Technologies Co Ltd (300768.SZ)	79.7	5.30%	–0.14%	15.6
Acer Cyber Security Inc (6690.TWO)	25.3	2.00%	0.00%	16.8
			Maximum	16.8
			Minimum	14.6
			Average	15.7
			Median	15.6

Notes:

1. The size differentials are determined by the difference between (i) the size premium of each of the comparable companies, and (ii) the size premium of the Target Company, plus the specific risk premium, with reference to the Cost of Capital Navigator, Center for Research in Security Prices Deciles Size Study as of 31 December 2023, published by Kroll (formerly Duff and Phelps).

2. The region differentials are determined by the difference between (i) region risk premium (or sometime known as country risk premium) of the jurisdiction that the comparable company engaged in, and (ii) the region risk premium of the jurisdiction that the Target Company engaged in, with reference to the Country Default Spreads and Risk Premiums study issued and last updated by Aswath Damodaran in January 2025.

3. The adjusted EV/EBIT is derived from adjusting the EV/EBIT with reference to the formula described in "*Adjusting Guideline Multiples for Size*" published by Mattson, Shannon and Drysdale published in September/October 2001 Valuation Strategies, being: 1 ÷ (1 ÷ EV/EBIT + size differential + region differential).

In deriving the size differential for the comparable companies, the Independent Valuer has made reference to the study titled "*Adjusting Guideline Multiples for Size*" by Michael Mattson, Don Shannon and Don M. Drysdale, published in the September/October 2001 Valuation Strategies (the "**Guideline**"). This study suggests the adjustment of the multiples for the difference in company sizes, which are determined by the market capitalisation of the companies. The Independent Valuer advised us that (i) the above formula was subsequently cited by an article "*Market Multiples Adjustments For Differences In Risk Profile – An Airline Company Example*" published by Nina Milenkovi *(KPMG LLC Belgrade, Kraljice Natalije 11, 11000 Belgrade, Serbia)* in 2015, and (ii) this size adjustment methodology is widely recognised and utilised by professional valuers in the industry. Based on our independent research conducted, such size-adjustment with reference to the Guideline is not uncommon in business valuation, particularly in the use of guideline public company method. As such, we are of the view that the Independent Valuer's reference to the Guideline is fair and reasonable.

Based on the unaudited financial information of the Target Company for the year ended 31 December 2024, the earnings before interests and taxes (excluding investment income and other income) amounted to approximately HK$7,897,000. By applying the adjusted EV/EBIT multiple of 15.7 times, as calculated above, the implied enterprise value of the Target Company would be HK$123,719,000 before applying the marketability discount as detailed below.

Despite the comparable companies are of larger scale of operation, mostly have higher profitability level (in absolute amount term), have wider business scope and of more advanced stage of development, having considered that (i) the Independent Valuer did not directly apply the base EV/EBIT of the comparable companies, but instead adjusting them by the respective size differentials as well as the region differentials, (ii) the methodology of adjustment and the respective formula are widely adopted in the industry, and (iii) this methodology of adjustment was made with reference to reputable study and renowned publications, we are of the view that such differences between the comparable companies and the Target Company have been appropriately taken into account in the valuation conducted by the Independent Valuer, and such valuation methodology is fair and reasonable.

Marketability discount

The Independent Valuer has considered a marketability discount in determining the valuation of the Target Company. According to the Independent Valuer, a lack of marketability discount is applied because ownership interests in closely held companies are typically less liquid and not as readily marketable as comparable interests in publicly listed companies. As a result, shares in privately held companies are generally worth less than similar shares in publicly traded companies.

The Independent Valuer applied a marketability discount of 20.4%, which was determined with reference to the Stout Restricted Stock Study Companion Guide (2024 Edition) (the "**Companion Guide**"). Based on our independent research, the marketability discount rates published in the Companion Guide are widely recognised and adopted in professional business valuations. Therefore, we consider the Independent Valuer's application of a marketability discount to be reasonable and appropriate.

After applying 20.4% marketability discount, the value of the Target Company would be HK$98,480,000. The Independent Valuer further adjusted this value by (i) adding the cash and cash equivalents of the Target Company of approximately HK$76,000 as at 31 December 2024, and (ii) deducting debts of the Target Company of approximately HK$6,499,000 as at 31 December 2024. This resulted in an indicated value of HK$92,057,000. Consequently, the appraised value of 30% equity interest in the Target Company amounts to HK$27,617,000.

Cross-checking analysis

For the purpose of cross-checking of the valuation, we conducted an independent research, on a best effort basis, and reviewed the principal activities as disclosed in the latest published annual reports and/or interim reports of the companies listed on the Stock Exchange to identify listed companies that share common features with the Target Company.

In our cross-checking approach, we have used similar selection criteria as the Independent Valuer but with a slightly broader scope of services, fewer exclusions and focus on companies listed on the Stock Exchange in Hong Kong. The selection criteria included but not limited to (i) the principal activities included provision of information technology products or services, and (ii) the major products or services were focusing on data security, ideally utilizing encryption technology in providing data security and/or cybersecurity solution.

The following table sets forth the exhaustive list of the comparable companies identified on best effort basis in our cross-checking analysis:

	Company name	Stock code	Market Capitalisation as at 28 February 2025 (HK$)	P/E [1]	EV/EBIT	Principal business
1	Computer and Technologies Holdings Ltd	46.HK	447,132,000	26.3	17.8	Development and provision of software across human resources management, information management and property management, provision of IT security service including security risk management and security audit and training, and provision of IT solutions and integration services.
2	Future Data Group Limited	8229.HK	235,072,000	Loss	Loss	Provision of an integrated system with network connectivity, cloud computing and security elements and maintenance service.
3	Edvance International Holdings Limited	1410.HK	204,860,000	Loss	44.2	Distribution of IT security products and provision of IT security services
4	Shanghai Jiaoda Withub Information Industrial Co Ltd	8205.HK	36,960,000	Loss	Loss	Provision of business application solutions and applications, software development, installation and maintenance of network and data security products, sales of electrical products and accessories, building intelligent system integration, and distribution of IT products.

	Company name	Stock code	Market Capitalisation as at 28 February 2025 (HK$)	P/E [(1)]	EV/EBIT	Principal business
5	Nexion Technologies Limited	8420.HK	23,082,000	Loss	Loss	Provision of information and communications technology solutions, focusing on the provision of cybersecurity solutions and software as a service.
			Maximum	26.3	44.2	
			Minimum	26.3	17.8	
			Average	26.3	31.0	
			Median	26.3	31.0	
	Target Company		**92,057,000** [(2)]	**12.0**	**11.7** [(3)]	

Notes:

1. Latest published annual earnings exclude other revenue, investment income, or other gains and losses.

2. The valuation is arrived at by the Independent Valuer.

3. Calculated by the valuation of HK$92,057,000 divided by the earnings before interests and taxes (excluding investment income and other income) of HK$7,897,000.

We concur with the Independent Valuer's view that earning is the primary determinant of value, thus P/S ratio is not considered. We also understand from the Independent Valuer that P/B ratio is typically used for asset intensive industry and is not appropriate for asset light industry like the Target Company. As such, both the P/S ratio and P/B ratio are not used in this analysis. Although we understand that, according to the Independent Valuer, EV/EBIT ratio is a more appropriate metric than P/E ratio to measure the Target Company since the P/E ratio might have distorting effect across different capital structures between the comparable companies and the Target Company, we consider that there is no harm to illustrate the P/E ratio as well. Therefore, for the purpose of this cross-checking exercise, the P/E ratio and EV/EBIT ratio of each of the comparable companies, together with that of the Target Company, are set out in this analysis.

From the above table, Future Data Group Limited (8229.HK), Shanghai Jiaoda Withub Information Industrial Co Ltd (8205.HK) and Nexion Technologies Limited (8420.HK) have no P/E ratio and EV/EBIT ratio due to their loss in earnings. Among the remaining two comparable companies, Edvance International Holdings Limited (1410.HK) has no applicable P/E ratio due to loss in earnings and has its EV/EBIT of 44.2 times, while Computer and Technologies Holdings Ltd (46.HK) has its P/E ratio of 26.3 times and EV/EBIT of 17.8 times.

As such, for the purpose of P/E analysis, there is only one comparable company with P/E ratio of 26.3 times. For the purpose of EV/EBIT analysis, the industry average and the median is 31.0 times, both being the average of (i) 17.8 times from Computer and Technologies Holdings Ltd (46.HK), and (ii) 44.2 times from Edvance International Holdings Limited (1410.HK).

Further, the Target Company has its P/E ratio of 12.0 times and EV/EBIT ratio of 11.7 times, both are lower than that of the comparable companies and the industry average and median.

In light of more than half of the comparable companies was loss-making and thus the P/E ratios and EV/EBIT ratios of them were not applicable, the industry average and median arrived from this analysis highly depend on the remaining two comparable companies. While we observed that there would be more comparable companies if we had broadened the scope to include IT companies not focusing on data security, we consider that may not be meaningful taking into account of the principal business of the Target Company is provision of data security solution instead of generic IT products or services.

In this regard, we believe the above list of comparable companies identified by us on the best effort basis is fair and representative for cross-checking purpose, notwithstanding that the majority of these comparable companies did not result in applicable ratio. Given the constraint that the majority of the results of these comparable companies were not applicable due to loss-making, the Independent Board Committee and the Independent Shareholders should be aware that the results of this cross-checking analysis may not completely represent the market dynamics of the data security and/or the cybersecurity industry and should be considered for reference only.

Having discussed with the Independent Valuer and the management of the Company, we understand that (i) the nature of services provided by the Target Company is relatively unique in the industry, despite sharing common features like utlisation of encryption technology and provision of cyber security products or services, the content of the products and services between the Target Company and the comparable companies are not entirely identical, and (ii) the Independent Valuer has observed and taken into account that the number of comparable companies listed in Hong Kong that can be utilised in its valuation may be limited, so that it has already extended its scope to China and Taiwan to arrive in its valuation.

As such, despite this cross-checking analysis may suggest that the valuation of the Target Company is in the interests of the Company and the Shareholders as a whole, we consider that this cross-checking approach is not appropriate to assess the fairness and reasonableness of the valuation.

Our view

Based on our review of the Valuation Report and discussion with the Independent Valuer, nothing has come to our attention that causes us to doubt the reasonableness of the preparation of the Valuation Report. In view of the above, we consider that the valuation performed by the Independent Valuer, as well as the basis, assumptions and methodology adopted in the Valuation Report, to be reasonable and appropriate.

5.3 Promissory Notes

As disclosed in the Letter from the Board, part of the Consideration (HK$20,600,000) shall be settled by way of issue of a set of two-year interest-bearing Promissory Notes at 2.5% per annum by the Company on the Completion Date. Interest shall be paid annually. Please refer to the section headed "*1. INTRODUCTION - Promissory Notes*" for further details of the terms and conditions.

According to our understanding from the Company, the interest rate was determined after arm's length negotiations with reference to the lending rate of loans of financial institutions.

Based on our independent research, the best lending rate as quoted by each of The Hongkong and Shanghai Banking Corporation Limited and the Bank of China (Hong Kong) on their websites as at the Latest Practicable Date is 5.25% per annum; and the best lending rate as quoted by Standard Chartered Bank (Hong Kong) Limited on its website as at the Latest Practicable Date is 5.5% per annum.

Furthermore, we have identified an exhaustive list, on the best effort basis, of comparable companies listed on the Stock Exchange of Hong Kong that published announcement on issuance of interest-bearing Promissory Notes in the past 24 months prior to the date of announcement (i.e. 25 January 2023 to 24 January 2025). Details of the comparable companies based on the selection criteria above are illustrated as follows:

Company name (stock code)	Date of announcement	Connected Transaction (Y/N)	Currency and principal amount	Interest rate	Maturity
China Ruifeng Renewable Energy Holdings Limited (527.HK)	26 June 2024	N	HK$13,600,000	5.0%	3 years

Company name (stock code)	Date of announcement	Connected Transaction (Y/N)	Currency and principal amount	Interest rate	Maturity
Energy International Investments Holdings Limited (353.HK)	17 June 2024	N	HK$86,022,000	4.8%	3.5 years
Japan Kyosei Group Company Limited (627.HK)	13 June 2024	Y	HK$400,000,000	3.0%	5 years
Chuan Holdings Limited (1420.HK)	14 February 2024	Y	S$8,000,000	8.0%	4 years
Brii Biosciences Limited (2137.HK)	14 February 2024	N	USD2,500,000	11.5% (being the greater of 8.0% or Prime rate of Wall Street Journal + 4.0%)	2 years and 7 months
Huili Resources Group Ltd (1303.HK)	29 December 2023	N	HK$37,360,000	5.0%	5 years
Comtec Solar Systems Group Ltd (712.HK)	28 December 2023	N	HK$22,000,000	5.875%, being the HSBC Prime rate and subsequently reduced to 5.25%	over 1 year (15 business days after issuance of audited accounts 2024)
Central Wealth Group Holdings Ltd (139.HK)	29 November 2023	N	HK$50,000,000	3.0%	2 years
Hatcher Group Ltd (formerly VBG International Holdings Ltd) (8365.HK)	6 October 2023	N	HK$27,957,900	5.0%	5 years
Zhong Jia Guo Xin Holdings Co Ltd (formerly Asia Resources Holdings Ltd) (899.HK)	23 August 2023	N	HK$156,833,600	3.0%	1 year

Company name (stock code)	Date of announcement	Connected Transaction (Y/N)	Currency and principal amount	Interest rate	Maturity
Jiading International Group Holdings Ltd (formerly Farnova Group Holdings Ltd) (8153.HK)	15 August 2023	N	RMB2,100,000	10.0%	1 year
Fire Rock Holdings Limited (1909.HK)	7 May 2023	N	RMB64,000,000	3.0%	2.67 years (maturity by 31 December 2025)
Roma (meta) Group Ltd (formerly Roma Group Limited) (8072.HK)	28 April 2023	N	HK$1,250,000	12.0%	1 year
Cool Link (Holdings) Limited (8491.HK)	13 March 2023	N	HK$17,800,000	8.0%	1 year
Basic House New Life Group Ltd (formerly AL Group Ltd) (8360.HK)	21 March 2023	Y	HK$500,000	3.0%	2 years
			Maximum	12.0%	
			Minimum	3.0%	
			Average	6.0%	
			Median	5.0%	
Target Company				2.5%	

We note that the interest rate of 2.5% per annum for the Promissory Notes is (i) lower than the best lending interest rates as quoted by reputation financial institutions in Hong Kong, and (ii) the lowest among the comparable companies that published announcement in relation to issue of interest-bearing Promissory Notes in the past 24 months. Therefore, we consider that the interest rate of the Promissory Notes is no less favourable than those offered by independent third parties.

6. Financial Effect of the Acquisition

Earnings

As stated in the Letter from the Board, the Target Company will be owned as to 30% by the Company and will be accounted for as an associate of the Company by using equity method. The Target Company will not become a subsidiary of the Company, and the financial information of the Target Company will not be consolidated into the financial statements of the Group.

Based on the unaudited financial information of the Target Company, the profit before taxation was approximately HK$9.5 million for the year ended 31 December 2024. Upon Completion, the financial results of the Target Group will be recognised as share of results of associates of the Company.

Since part of the Consideration will be settled by issue of the 2.5% per annum interest-bearing Promissory Notes, assuming there is no early repayment, the annual interest expense would be approximately HK$0.5 million.

Should the Target Company sustain its profitability in future, the Acquisition is expected to have positive financial effects on earnings of the Company.

Cash and cash equivalents

Given part of the Consideration will be settled in cash, it is expected that the cash position of the Group will decrease as a result of the Acquisition. The cash consideration of HK$7.0 million represents approximately 39.0% of the Group's cash and cash equivalents balance as at 30 June 2024 of approximately RMB19.2 million.

Liabilities

As set out in the Interim Report 2024, the Group has no interest-bearing debts or borrowings as at 30 June 2024. The issue of Promissory Notes in principal amount of HK$20,600,00 will be accounted for as the liabilities of the Group upon Completion.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial positions of the Group will be upon completion of the Acquisition.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that the terms of the Equity Sale and Purchase Agreements are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and the entering into of the Equity Sale and Purchase Agreements is in the interests of the Company and the Shareholders as a whole, despite that the Acquisition itself may not be conducted in the ordinary and usual course of business of the Group.

We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated under the Equity Sale and Purchase Agreements.

Yours faithfully,
for and on behalf of
HOORAY CAPITAL LIMITED

Rebecca Mak
Managing Director

Simon Cheung
Director

Note: Ms. Rebecca Mak is a responsible officer to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and she has over 20 years of experience in the corporate finance industry.

Mr. Simon Cheung is a responsible officer to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and he has over 11 years of experience in the corporate finance industry.