中國信息科技發展有限公司
China Information Technology Development Limited
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 08178)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcement (the "**Announcement**") of China Information Technology Development Limited (the "**Company**") dated 6 June 2024 in relation to the Acquisition of 100% equity interest in the Target Company involving the issue of Consideration Shares under General Mandate. Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

The Board wishes to provide the Shareholders and potential investors with additional information in relation to the Acquisition as follows:

COMPLIANCE WITH THE GEM LISTING RULES

As disclosed in the Announcement, AP Appraisals Limited, the independent professional valuer (the "**Valuer**"), has conducted the valuation of 100% equity interest in the Target Company which forms the basis for determining the Consideration. As the valuation was prepared based on the income approach in respect of the valuation of future growth potential of the Target Company, such valuation consititutes a profit forecast under Rule 19.61 of the GEM Listing Rules. Therefore, this supplemental announcement is made in compliance with Rule 19.60A and 19.62 of the GEM Listing Rules.

BASIS OF THE CONSIDERATION

As disclosed in the Announcement, the Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor on normal commercial terms, among others, with reference to (i) its business outlook; (ii) a valuation report prepared by AP Appraisal Limited as the Valuer, with an opinion that the fair value of 100% equity interests in the Target Company as of 30 April 2024 stated as HK$14 million (the "**Valuation**"); and (iii) the Company's assessment on the prospect of the Target Company and the synergistic benefits that can be created between the Target Company and the Company.

The Board would like to supplement the followings in determining the Consideration:

The business outlook of the Target Company

The Board considered that cloud solution is a trend and common for every client in such a digital era nowadays to encounter upcoming transformation and innovation needs including but not limited to artificial intelligence ("**AI**"), Web3.0, blockchain, big data etc. The Target Company aims at creating a cloud platform solution that can be installed quickly and with easy and interesting interface for agile adoption for clients to connect with their customers, while working efficiently and effortlessly across different systems. As a result of the Acquisition, the Group shall develop a more open ecosystem for other technology partners that deliver the next generation of applications on the cloud platform through the Target Company, so as to create a customer centric operating system for brands, empowering with data analysis and AI, and envision to becoming a fast-growing Software as a services (SaaS) company in the future technology fields.

The Group suffered a net loss attributable to owners of the Company of approximately HK$22.76 million for the year ended 31 December 2023, while the Target Company was profitable with a net profit after taxation of approximately HK$1.95 million for the year ended 31 December 2023.

As such, the Board considered that the Acquisition represents a valuable opportunity for the Group to extend its business network and client base, strengthen its existing businesses and further enables the Group to increase its revenue stream and ultilise its resources more efficiently without adversely affecting the cash flow of the Group.

Independent valuation of the Target Company

According to the valuation report in respect of the valuation of the Target Company to be issued by the Valuer (the "**Valuation Report**"), the valuation of the Sales Shares, representing the entire issued share capital of the Target Company, as at 30 April 2024 as appraised by the Valuer using the discounted cash flows method under the income approach was HK$14 million.

Valuation Approach: Income Approach

The Valuer considered that the asset approach is not an adequate approach for the valuation, as this approach does not take future growth potential into consideration. Besides, the Valuer also considered that the market approach is not applicable for the valuation, as there are insufficient comparable transactions in the market. However, a Price/Earnings Ratio is done for crosscheck. Thus, the Valuer determined that the income approach is the most appropriate valuation approach to value the equity interest in the Company.

Valuation Method: Discounted Cash-Flow Method

For the valuation of the equity interest in the Target Company, the Valuer have adopted the Discounted Cash-Flow ("**DCF**") method under income approach. The discounted cash-flow method is premised on the concept that the value is based on the present value of all future benefits that flow to the shareholders of the Company (the "**Shareholders**") by applying an appropriate discount rate. These future benefits consist of future income could be distributed to the Shareholders. In essence, this valuation method requires a forecast to be made of cash-flow, going out far enough into the future until an assumed stabilization occurs for the assets being appraised. This methodology assumes that the forecasted income/cash-flow will not necessarily be stable in the near term but will stabilize in the future.

The DCF method is based on a simple reversal calculation to restate all future cash flows in present terms. The expected free cash flow for each year was determined as follows:

Expected Free Cash Flow = Net Profit + Depreciation – Change in Net Working Capital – Capital Expenditure

The present value of the expected free cash flows was calculated as follows:

$$PVCF = CF_1/(1+r)^1 + CF_2/(1+r)_2 ++ CF_n/(1+r)^n$$

In which:
PVCF = Present value of the expected free cash flows;
CF = Expected free cash flow;
r = Discount rate; and
n = Number of years.

Key Parameters used in the Valuation:

	Parameter	Value	Source
(a)	Forecast Revenue Growth rate from 2024 to 2029	6.0%, 6.0%, 5.0%, 4.0%, 3.0%, 2.5%	Minimum level of industry CAGR in the region where the business of the Target Company is operating

	Parameter	Value	Source
(b)	Profit Tax	16.5%	2024 Hong Kong tax rate from Hong Kong Inland Revenue Department online data
(c)	Net profit after tax margin	30%	Historical Net profit after tax margin
(d)	Long-term Growth Rate	2.5%	10-year average of Global GDP and Inflation growth rate from IMF.org online data
(e)	Discount Rate	14%	WACC determined by using capital asset pricing model (CAPM) and information of comparable companies in the same industry listed on Japan, S. Korea, China and Hong Kong
(f)	Risk Free Rate	3.97%	Hong Kong's 10-year government bond data extracted from Hong Kong Monetary Authority as of the valuation date
(g)	Equity Risk Premium	6.81%	LSEG data as of the valuation date
(h)	Beta	0.8726	Median adjusted beta of the comparable companies listed on the Hong Kong Stock Exchange
(i)	Size Premium	4.83%	CRSP decile 10 with reference to the size premium study by Duff & Phelps, LLC.
(j)	Cost of Debt	5.88%	Hong Kong lending rate extracted from HSBC online data
(k)	Equity Value to Enterprise Value ratio	96.74%	Median of equity value to enterprise value of comparable companies extracted from LSEG data
(l)	Debt Value to Enterprise Value ratio	3.26%	Median of debt value to enterprise value of comparable companies extracted from LSEG data
(m)	Discount for Lack of Marketability	20%	With reference to the DLOM applied in transactions published in the Moore Control Premium & Discount for Lack of Marketability Study

The Valuation constitutes a profit forecast under Rule 19.61 of the GEM Listing Rules. Profit forecast is based on the empirical financial figures and business plan provided by the management of the Target Company. The following assumptions were considered and adopted in the forecast, including but not limited to:

– The sales growth was estimated based on the Target Company's empirical experience and business plan;

– The operating expenses were estimated based on the Target Company's empirical experience and business plan; and

– Contingency cost was estimated based on the Target Company's empirical experience and business plan.

GENERAL ASSUMPTIONS

Due to the changing environment in which the Target Company is operating, a number of assumptions have to be established in order to sufficiently support our concluded opinion of the value of the equity interest in the Target Company. The major assumptions adopted in the Valuation are:

- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the jurisdiction where the Target Company currently operates or will operate which will materially affect the revenues attributable to the Target Company, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

- The financial projections in respect of the Target Company has been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful consideration by the management of the Target Company;

- The Valuer use reasonable effort to adjust the cashflow projection;

- For the Target Company to continue as a going concern, the Target Company will successfully carry out all necessary activities for the development of its business;

- Market trends and conditions where the Target Company operation will not deviate significantly from the economic forecasts in general;

- Key management, competent personnel, and technical staff will all be retained to support ongoing operations of the Target Company;

- There will be no material changes in the business strategy of the Target Company and its operating structure;

- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing;

- All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organization required to operate in the localities where the Target Company operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and

- The major shareholder of the Target Company will support and provide interest-free financing for the current and future business of the Target Company (including but not limited to working capital needs).

SPECIFIC ASSUMPTIONS

Due to foreseeable downturn of economy in the region where the business is running, the major specific assumptions adopted in the Valuation are:

- The contingency cost of 3% of Cost of Sales is adopted for prudent reason;
- The Valuer assumes the Target Company is ongoing-concern basis; and
- The Valuer assumes the Target Company has no off-balance debt or liability.

LIMITING CONDITIONS

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in the Valuation Report are summarized below. Other assumptions are cited elsewhere in the Valuation Report.

- Unless otherwise stated in the Valuation Report, the Valuation of the business has not considered or incorporated the potential economic gain or loss resulting from contingent assets, liabilities or events existing as of the date of the Valuation.
- Management of the Target Company is assumed to be competent, and the ownership to be in responsible hands, unless otherwise noted in the Valuation Report. The quality of the business management can have a direct effect on the viability and value of the business/asset being assessed.
- Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business because of future country, provincial or local legislations/regulations, including any environmental or ecological matters or interpretations thereof.
- All facts and data set forth in the Valuation Report are true and accurate to the best of the knowledge and belief of the Valuer. No investigation of legal fees or title of the business has been made, and the owner's claim to the business has been assumed valid. No consideration has been given to liens or encumbrances that may be against the business except as specifically stated (if any) in the auditors' report of the Target Company.
- During the course of the valuation, the Valuer have considered information provided by the Target Company and other third parties. The Valuer believe these sources to be reliable, but no further responsibility is assumed for their accuracy. The Valuer have had verbal conversations with the current management of the Target Company concerning the past, present, and prospective operating results of the Target Company. The Valuer assume that there are no hidden or unexpected conditions associated with the businesses that might adversely affect the reported values.

- The Valuation is based upon data, conditions, hypotheses and assumption stated herein and as presented to the Valuer by the Company and other third parties, upon which the Valuer relied.

- This valuation reflects facts and conditions existing at the date of the Valuation. Subsequent events have not been considered, and the Valuer have no obligation to update our report for such events and conditions. The Valuer have no responsibility or obligation to update the Valuation Report for events or circumstances occurring subsequent to the date of the Valuation.

Review by the Board and the Reporting Accountants

The Board has reviewed the key assumptions upon which the profit forecast was based and is of the view that the profit forecast was made after due and careful enquiry.

Privatco CPA Limited (the "**Reporting Accountants**") has been engaged by the Company to review the arithmetical calculation of the discounted future estimated cash flows upon which the Valuation Report prepared by the Valuer were based. The Reporting Accountants have reviewed the calculations of the discounted future cash flows on which the Valuation Report is based and are of the opinion that so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions made by the Directors as set out in the Valuation Report.

Pursuant to Rule 19.60A of the GEM Listing Rules, a report from Reporting Accountants dated 5 June 2024 and a letter from the Board dated 6 June 2024 in relation to the calculations of the discounted future cash flows are set out in Appendix I and Appendix II to this Supplemental Announcement in accordance with the requirements under the GEM Listing Rules.

Experts and consents

The following are the qualifications of the experts whose opinions and advice are included in this Supplemental Announcement:

Name	**Qualification**
AP Appraisal Limited	Independent professional valuer
Privatco CPA Limited	Certified public accountants

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this Supplemental Announcement, all of the above experts are third parties independent from the Company and its Connected Persons (within the meaning of the GEM Listing Rules), and as at the date of this Supplemental Announcement: (a) none of the above experts had any shareholding in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities in the Company or any of its subsidiaries; and (b) none of the above experts had any direct or indirect interests in any assets which have been since 31 December 2023 (being the date to which the latest published audited annual financial statements of the Company were made up) acquired or disposed of by or leased to the Company or any of its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries. Each of the above experts has given and has not withdrawn its written consent to the issue of this Supplemental Announcement with the inclusion herein of its letter, report or opinion (as the case may be) and reference to its name in the form and context in which they respectively appear.

In view of the above, as well as the the Company's assessment on the prospect of the Target Company and the synergistic benefits that can be created between the Target Company and the Company as described under the paragraph headed "Reasons for and benefits of the Acquisition" in the Announcement, and in particular, the Consideration is approximately 17.86% lower than the Valuation, the Board considered that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders.

By order of the Board
China Information Technology Development Limited
Wong King Shiu, Daniel
Chairman and Chief Executive Officer

Hong Kong, 28 June 2024

As at the date of this announcement, the Board comprises Mr. Wong King Shiu, Daniel (Chairman and Chief Executive Officer) and Mr. Chu Joshua Allen Kiu Wah as executive Directors; Hon. Li Sai Wing, JP, MH as non-executive Director; Mr. Hung Hing Man, Mr. Wong Hoi Kuen and Dr. Chen Shengrong as independent non-executive Directors.

This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will be available on the Company's website http://www.citd.com.hk and will remain on the "Latest Listed Company Information" page on the Stock Exchange's website at http://www.hkexnews.hk for at least 7 days from the date of its posting.

5 June 2024

Unit 3308, 33/F,
Millennium City 6,
392 Kwun Tong Road,
Kwun Tong, Hong Kong

INDEPENDENT ASSURANCE REPORT ON THE CALCULATION OF THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF POSSIBLE LIMITED

TO THE DIRECTORS OF CHINA INFORMATION TECHNOLOGY DEVELOPMENT LIMITED

We have examined the calculation of the discounted future estimated cash flows on which the valuation prepared by AP Appraisal Limited ("**AP**") dated 14th May, 2024, of the valuation of the Target Company as at 30th April, 2024 (the "**Valuation**") is based. The Target Company, which is incorporated in Hong Kong with limited liabilities, is engaged in the provision of I.T. and public relation services in Hong Kong. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 19.61 of the GEM Listing Rules and is included in the announcement dated 6th June, 2024 issued by the Company in connection with the acquisition of the entire equity interest in the Target Company (the "**Announcement**").

Directors' Responsibilities for the discounted future estimated cash flows forecasts

The directors of the Company (the "**Directors**") are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows forecasts for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance and Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on whether the calculation of the discounted future estimated cash flows has been properly compiled, in all material respects, in accordance with the bases and assumptions on which the Valuation is based and to report solely to you, as a body, as required by Rule 19.60A(2) and Appendix D1B of the GEM Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the Valuation Report.

Our engagement was conducted in accordance with Hong Kong Standards on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circular" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards requires that we plan and perform our work to obtain reasonable assurance as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions adopted by the directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Target Company.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The bases and assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the bases and assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions.

Yours faithfully,

Privatco CPA Limited
Certified Public Accountants
Hong Kong

The following is the full text of the letter from the Board which was prepared for the purpose of inclusion in this Announcement.

中國信息科技發展有限公司
China Information Technology Development Limited
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 08178)

Date: 6 June 2024

Hong Kong Exchanges and Clearing Limited
12/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

Dear Sirs,

DISCLOSEABLE TRANSACTION – ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

We refer to the announcement of China Information Technology Development Limited (the "**Company**") dated 6 June 2024 (the "**Announcement**") in relation to the caption matter and the valuation report dated 14 May 2024 (the "**Valuation Report**") prepared by AP Appraisal Limited (the "**Valuer**") in relation to the valuation of the entire equity interest of Popsible Limited.

We understand that the Valuer prepared the Valuation Report based on the discounted cash flow method and constitutes a profit forecast (the "**Profit Forecast**") under Rule 19.61 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**"). Unless otherwise defined or if the context otherwise requires, all terms defined in the Announcement shall have the same meaning when used in this letter.

We have reviewed the bases and assumptions of the Profit Forecast and discussed the same with the Valuer. We have also considered the letter dated 5 June 2024 from the Company's auditor, Privatco CPA Limited, in relation to whether the Profit Forecast, so far as the calculations are concerned, has been properly compiled in all material respects in accordance with the assumptions used in the Valuation Report. Based on the foregoing, pursuant to the requirements of Rule 19.60A(3) of the GEM Listing Rules, we confirm that the Profit Forecast has been made after due and careful enquiry.

This letter is for the sole purpose of Rule 19.60A(3) of the GEM Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with this letter.

Yours faithfully
For and On behalf of the Board of
China Information Technology Development Limited

Wong King Shiu, Daniel
Executive Director