25 April 2025

To the Shareholders

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE EQUITY SALE AND PURCHASE AGREEMENTS AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company dated 24 January 2025 in relation to the Equity Sale and Purchase Agreements entered into between the Company and the Vendor whereby the Company agreed to acquire the Sale Shares, representing approximately 30% of the issued share capital of the Target Company, from the Vendor.

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

Date:

24 January 2025

Parties:

Purchaser: the Company

Vendor: the Vendor

Subject Matter:

The Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell 30% shares of the Target Company. The Sale Shares represent 30% of the issued share capital of the Target Company.

Consideration:

Pursuant to the Equity Sale and Purchase Agreements, the total consideration of HKD27,600,000 for the purchase of the Sale Shares shall be satisfied by the Company by way of: (i) cash consideration of HKD7,000,000 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 Promissory Notes on the Completion Date in the sum of HKD20,600,000 to the Vendor. 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 30% of the Target Company, which is calculated by using market approach, is approximately HKD27,617,000 as at 31 December 2024.

It is the fact that the consideration represented a significant premium to the Target Company's net asset value. The Directors are of the view 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, the Board is of the view that 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.

The Board is of the view that in traditional industries (e.g., manufacturing), physical assets like factories or inventory dominate valuation. For software securities businesses, it's different and more highly dependent on intangible assets such as software, intellectual property, talent, network effects, customer data, brand and reputation. The Board has reviewed and considered the factors as stated in the Valuation Report (Appendix I) prepared by Peak Vision and the reasons and benefits of the transactions as stated at the section "Reasons for and benefits of the entering into of the transactions", and considered that the Consideration is fair and reasonable and in the interests of the Company and its shareholders.

The principal assumptions adopted in the Valuation Report of the Target Company have been disclosed below in relation to the Equity Sale and Purchase Agreements.

Promissory Notes

As at 31 December 2024, the Group has cash balance of RMB54.6 million, mainly comprising of unutilised net proceeds for specific purpose from rights issues completed in August 2024 of RMB40.15 million. The remaining cash balance is for the use of the current operation.

Despite that the Company does not have sufficient cash for satisfying the entire consideration, the management of the Company is of the view that the Target Company and the Company are profit-making and acquisition of the Target Company will have synergy with the Company's operation as mentioned in the section below "Reasons for and benefits of the entering into of the transactions". The management of the Company have considered alternative settlement method such as using consideration shares for settlement, while the drawback is that the shareholding of existing shareholders will be further diluted.

12 months Hong Kong Interbank Offered Rate ("**HIBOR**") is 4.13% (https://www.hangseng.com/en-hk/personal/banking/rates/hibor/). The carry interest rate of the Promissory Notes is 2.5% which is more favorable than HIBOR.

The Company will finance the repayment by income from operation and/or debt and equity financing. The Company expects to have sufficient resources for repayment.

In consideration of the reasons for and benefits of the entering into of the transactions and the settlement terms of the Promissory Notes, the Directors are of the view that the Acquisition is fair and reasonable and in the interest of the Company and its shareholders as a whole.

The terms of the Promissory Notes have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK$20,600,000

Interest

The Promissory Notes will carry interest rate of 2.5% per annum, and is payable once a year after the issuance of the Promissory Notes.

The interest rate was determined after arm's length negotiations with reference to the lending rate of loans of financial institutions.

Maturity

A fixed term of two years from the date of issue of the Promissory Notes.

Early repayment

The Purchaser could, at its option, early repay the Promissory Note with outstanding interest accrued thereon in whole or in part in integral multiples of principal amount of HK$100,000 by giving a prior ten Business Days' written notice to the relevant Vendor.

Transferability

The Promissory Note is transferrable in integral multiples of principal amount of HK$100,000.

Conditions precedent:

Completion is conditional upon fulfilment or waiver (as the case may be) of the following conditions:

(i) the Company having obtained the approval from its Independent Shareholders in respect of, *inter alia*, (a) the Acquisition; and (b) the issue of the promissory notes to the Vendor pursuant to the terms of the Equity Sale and Purchase Agreements, in the manner required by the GEM Listing Rules;

(ii) the Company having obtained the approval from the Board in respect of the transactions contemplated under the Equity Sale and Purchase Agreements as well as the issue of the promissory notes;

(iii) Each party having complied with the terms and conditions of the Equity Sale and Purchase Agreements and there having been no material breach of the Equity Sale and Purchase Agreements by any party to the Equity Sale and Purchase Agreements;

(iv) all of the warranties and representations contained in the Equity Sale and Purchase Agreements being true, correct, complete, accurate and not misleading in all material respects at Completion, as if repeated at Completion and all undertakings contained in the Equity Sale and Purchase Agreements, to the extent being capable of being fulfilled prior to the Completion Date, having been fulfilled in all respects;

(v) the purchaser, the vendor and the Target Company having complied with the GEM Listing Rules in all respects in connection with the Acquisition; and

(vi) the Company being satisfied with the results of the legal and/or financial due diligence review of the Target Company.

Among the above conditions, items (i), (ii) and (v) are not waivable, while item (iii) may be waived by the non-defaulting party and items (iv) may be waived by the Company. Except item (ii) and (vi), the other conditions are not fulfilled yet at this stage. If the conditions above have not been fulfilled or waived (as the case may be) within six months from the date of the Equity Sale and Purchase Agreements (or such later date as the parties may agree), the Equity Sale and Purchase Agreements shall cease and terminate and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the Equity Sale and Purchase Agreements.

Completion

Completion shall take place within seven business days after fulfilment or waiver (as the case may be) of all the conditions precedent to the Equity Sale and Purchase Agreements, or such other date as the parties to the Equity Sale and Purchase Agreements may agree in writing.

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.

VALUATION

Valuation Methodology

In arriving at the appraised value of 30% equity interest in the Target Company, Peak Vision has considered three generally accepted approaches, namely the income approach, the asset approach, and the market approach. The income approach is not adopted given that longterm forecasts inherently rely on various subjective assumptions, which may or may not be sustainable. Furthermore, the profit of the Target Company was relatively volatile. Therefore, preparing the financial projection of the Target Company involves subjective judgement and uncertainties. The asset approach is not applied as the valuation of the Target Company is conducted on a going concern basis, and the summation of its assets is inappropriate as such method ignores the future economic benefits of the business as a whole and market sentiment regarding the shares of the Target Company. In contrast, the market approach is better suited to capturing market sentiment and producing a less biased valuation of the Target Company as it requires fewer subjective inputs. Having considered the three general valuation approaches, Peak Vision considers that the market approach would be appropriate and reasonable in the valuation of the market value of the Target Company.

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 utilizes information on transactions involving assets that are the same as or similar to the subject asset. 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.

For the valuation of the Target Company, Peak Vision has employed the enterprise value to earnings before interests and taxes ("**EV/EBIT**") ratio. Peak Vision considers the EV/EBIT ratio is more appropriate in valuing the Target Company when compared to other commonly adopted price multiples such as price to sales ("**P/S**") ratio, price to book ("**P/B**") ratio and price to earnings ("**P/E**") ratio due to the following reasons:

- Earnings is the primary determinant of value;

- P/S ratio and P/B ratio do not account for the profitability of the business, and fail to reflect the true earnings power and value of the business; and

- 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.

The Board acknowledged that both the guideline public companies and the Target Company are software companies offering information security products to protect data and ensure information safety. As such, their products should all fall under the same product category and they should operate within the same industry which are subject to similar economic and technological conditions, making them fair and representative for the valuation of the Target Company.

The Board also noticed that the guideline public companies are of higher market capitalization and profitability level, wider product range and more advanced stage of development. However, the Board acknowledged that Peak Vision had also further adjusted the derived multiples downwards according to independent research commonly adopted by practitioners by considering appropriate risk premiums (including size premium, country risk premium and additional risk premium to reflect the higher risk of the Target Company) for the Target Company and the guideline public companies.

The Board understands that there is no perfect match of comparable company having exactly the same business model, the same hardware and software products with the same applications, the same customer type, the same operating scale, the same development stage and the same financial performance as the Target Company. However, the Board understands that Peak Vision had already prepared a list of appropriate selection criteria in order to find the best way to identify those most appropriate comparable companies. Since no Hong Kong listed comparable company can be identified which is able to fulfil all the selection criteria, comparable companies listed in the PRC and Taiwan were then identified by Peak Vision. Although the Target Company is a Hong Kong-based company, it has partnered with agents in various regions in the PRC (including Jiangsu Province, Anhui Province, Chongqing City, Guizhou Province) and countries in the Southeast Asia Region and has established distribution channels to distribute its products. As such, the Board considers the selected comparable companies in the PRC or Taiwan also share the similar geographic risk as the Target Company and thus are also appropriate to be taken into consideration.

The comparable companies identified by Peak Vision all share some similarities which are the similar product and service providing data security solutions and similar targeting customer types like government and enterprises. Although the Target Company and the comparable companies might be involved in certain hardware products, their core competitive edges still focus on their software development. Besides, although the comparable companies might have different development stages than the Target Company, the Board acknowledged that Peak Vision had also noticed such differential and had also taken appropriate action by adjusting the derived multiples downwards based on their original market ratios to reflect such differentials in compliance with widely recognized and accepted valuation methods. In addition, Peak Vision had also considered that the comparable companies have more diversified product ranges than the Target Company and the Target Company is still at the early growing stage with higher uncertainties of development so as to apply additional specific risk premium differentials to reflect such additional risks.

In regards to the EV/EBIT ratio adjustment, the Board acknowledges that if those outliers were taken into account, the valuation result will be much higher than consideration. The Board agrees with Peak Vision that the extreme EV/EBIT ratios are unrealistic and should be excluded in the valuation process as otherwise they may somehow distort the valuation at the very first place.

The Boards also understand that the market capitalization adopted in the valuation are all at the minority stake position, which is also in line with the minority stake position (30% equity interest) of the intended acquisition of the Target Company. As such, control premium should not be taken into the consideration.

Based on the above, the Board is of the view that the valuation and the consideration is fair and reasonable.

The Board understands that Peak Vision adopted a reasonable lack of marketability discount according to widely adopted empirical study. In addition, since the subject equity interest (i.e. 30% equity interest) represents a non-controlling interest, the Board considers that the adoption of the market capitalization of the guideline public companies, which are derived from closing share price (minority shares) multiplied by outstanding shares, are already representative so the non-controlling basis as adopted by Peak Vision is also appropriate.

The Board noticed some of the comparable companies are involved in hardware manufacturing procedures. However, the Board also acknowledged that each set of the System (i.e. 網璽) as provided by the Target Company also consists of its hardware key components. Although the Target Company and the comparable companies might be involved in certain hardware products, their core competitive edges still focus on their software development.

The Board understands that there is no perfect match of comparable company having exactly the same business model, the same hardware and software products with the same applications, the same customer type, the same operating scale, the same development stage and the same financial performance as the Target Company. Given the product as developed by the

Target Company is specialized and unique in nature, the Board understands that Peak Vision has also prepared a list of selection criteria in order to find the best way to identify those most appropriate comparable companies. The comparable companies identified by Peak Vision all share some similarities which are the similar product and service providing data security solutions for intrusion prevention and similar targeting customer types like government and enterprises.

Although the comparable companies might have different development stages than the Target Company, the Board acknowledged that Peak Vision had also noticed such differential and had also taken appropriate action by adjusting the derived multiples downwards based on their original market ratios to reflect such differentials. Given that the more mature the company in its development stage, the higher the market capitalization it should be and the larger size differential should be applied as compared to the Target Company. In the course of Peak Vision's analysis, for those relatively mature and mature comparable companies, Peak Vision had also adopted the corresponding increasing size differentials to reflect such difference.

In addition to the above, Peak Vision had also taken further step to consider that the comparable companies have more diversified product ranges than the Target Company. As such, Peak Vision had further applied some specific risk premium differential to the adjustment.

Based on the above and considering all the adjustments made by Peak Vision, the Board considers the six comparable companies adopted are fair and reasonable.

Further, based on the sensitivity analysis as performed by Peak Vision, the Board acknowledges that if those outliers were taken into account, the valuation result will be much higher than consideration. The Board agrees with Peak Vision that the extreme EV/EBIT ratios are unrealistic and should be excluded in the valuation process as otherwise they may somehow distort the valuation.

Based on the above, the Board is of the view that the valuation of the Target Company as conducted by Peak Vision is fair and reasonable.

ASSUMPTIONS OF THE VALUATION

Major Assumptions

- 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;

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

- The availability of finance will not be a constraint on the forecast growth of the Target Company's operations in accordance with the business plans;

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

- The financial information of the Target Company as supplied to us has been prepared in a manner which truly and accurately reflects the financial performances and positions of the Target Company as at the respective financial statement dates;

- 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 operations of the Target Company will not differ materially from those presently prevailing;

- All relevant approvals, business certificates, licences 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

- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues and profits attributable to the Target Company.

INPUTS AND COMPUTATION PROCESS OF THE VALUATION

Formula and Parameters

In the course of the valuation, Peak Vision has identified a total of six guideline public companies for valuation analysis. The Target Company is a computer information service confidentiality provider that focuses on the encryption protection of private information, and there are no perfect match of comparable companies with exactly the same financial performance, business operations and risk profile as the business subject. However, the comparable companies they identified are also engaged in the software security business and therefore Peak Vision considers they are subject to similar business, industry and economic risks and rewards as the Target Company.

Selection criteria of comparable companies are listed as follows:

a. Companies that are actively traded and publicly listed in the PRC, Hong Kong or Taiwan;

b. Companies that have been publicly listed for at least two years before the valuation date (31 December 2024);

c. Companies principally engaged in the software or internet security activities according to The Refinitiv Business Classification;

d. Under the abovementioned software or internet security classification, at least 80% of the revenue is derived from the provision of products or services in relation to encryption, software security, cybersecurity, network security, internet security, software security, digital security, password security or authentication; and

e. Companies that are generating operating profit according to Refinitiv.

Based on Peak Vision's search of the Refinitiv database using the criteria above, the exhaustive list of six guideline public companies are set out below:

Ticker	**Name**	**Market Capitalization as at the Valuation Date** *(HK$'million)*	**Normalized Earnings Before Interest and Taxes** *(HK$'million)*
002439.SZ	Venustech Group Inc.	20,511	262[(2)]
300768.SZ	Hangzhou DPtech Technologies Co., Ltd.	11,990	113[(2)]
603232.SS	Koal Software Co., Ltd.	3,235	8[(2)]
688168.SS	Beijing ABT Networks Co., Ltd.	3,198	14[(2)]
688244.SS	Integrity Technology Group Inc.	2,785	23[(2)]
6690.TWO	Acer Cyber Security Inc.	1,473	65[(2)]

(1) Normalized earnings before interest and taxes for the trailing 12 months ended 30 June 2024

(2) Normalized earnings before interest and taxes for the trailing 12 months ended 30 September 2024

Source: Refinitiv

The details of the six guideline public companies selected are set out as follows:

Venustech Group Inc. (002439.SZ) is a China-based company, principally engaged in the research and development, manufacture and distribution of information and network security products, as well as the provision of security services. The company's security products include security gateway, security monitoring and data security and platforms. The company also provides security services and tools, and hardware among others. Its products are applied in government, telecommunication, finance, education, electric power, transportation and petrochemical industries, among others. The company distributes mainly in domestic markets. According to Refinitiv, 99% of the revenue was derived from the provision of information network security during the six months ended 30 June 2024.

Hangzhou DPtech Technologies Co., Ltd. (300768.SZ) is a China-based company principally involved in the research and development, manufacturing and sales of enterprise-level network communication products, as well as the provision of related professional services for users. The company's main products include network security products, application delivery products and basic network products which are used in the user network exit, server frontend position or routing switching core, and network sink or core node, among others. The company primarily conducts its businesses in domestic market. According to Refinitiv, 80% of the revenue was derived from the provision of network security products during the six months ended 30 June 2024.

Koal Software Co., Ltd. (603232.SS) is a China-based company principally engaged in the research and development, manufacture and sales of commercial passwords software products based on public key infrastructure (PKI). The company's main products include PKI infrastructure products, PKI security application products and general security products. The company distributes its products within China domestic market. According to Refinitiv, 100% of the revenue was derived from the provision of passwords software products during the six months ended 30 June 2024.

Beijing ABT Networks Co Ltd (688168.SS) is a China-based company mainly engaged in the research, development and sales of network security core software products. The company's main products are embedded security gateway, virtualized security gateways, and security management products. Embedded security gateways include next generation firewalls and network behavior management & audition components, which are used in data communication networks. Virtualized security gateways utilize universal servers as hardware carrier, and they are used in large data center and cloud computing center. Security management products mainly include traffic visualization, policy visualization, and cloud security management products. According to Refinitiv, 100% of the revenue was derived from the provision of network security core software products during the year ended 31 December 2023.

Integrity Technology Group Inc (688244.SS) is a China-based company mainly engaged in the research and development, production and sales of network security products, as well as the provision of network security services. Its products and services mainly include network shooting range products, security control and honeypot products, security tool products, security protection series services, network security competition services and other services, among which other services mainly include online and offline training services. Its security tool products are mainly for government supervision departments, and other services are mainly for individuals, enterprises and institutions. The company mainly operates in the domestic market. According to Refinitiv, 100% of the revenue was derived from the provision of information security software and network range series products, digital wind tunnel test evaluation and security and control services during the six months ended 30 June 2024.

Acer Cyber Security Inc. (6690.TWO) is a Taiwan-based company mainly engaged in providing professional electronic information management services. The company mainly provides information security services, including the Security Monitoring and Protection Center (SOC) operation services, the security information sharing analysis and monitoring services

(ISAC), flood prevention monitoring services, anti-virus monitoring services, decentralized blocking attack drill services, system vulnerability scanning, among others; as well as computer room, cloud service and commercial software sales, including enterprise exclusive computer room rental, host performance monitoring, backup service, information system maintenance outsourcing management, disaster recovery planning service and drill, emergency preparation aid center. According to Refinitiv, 88% of the revenue was derived from the provision of information security service during the year ended 31 December 2023.

The above comparable companies, together with the Target Company, are subject to similar fluctuations in the economy and performance of the software security industry, among other factors. Thus, Peak Vision considers they are confronted with similar risks and rewards.

In order to form a meaningful and fair valuation, Peak Vision has adjusted the differences in characteristics between the Target Company and the comparable companies.

Different companies are exposed to different levels of risk, in terms of size premium, country risk and other relevant specific risk, etc. Therefore, the multiples of comparable companies should be adjusted so that they reflect the risk of the Target Company. In the course of our valuation, Peak Vision has assessed the risk relative to the comparable companies by making reference to their sizes and listing locations, and accordingly adjusted the multiples upward or downward where appropriate based on the differences.

The unadjusted and adjusted multiples are presented as follows:

Ticker	**Name**	**EV/EBIT**	**Adjusted EV/EBIT**
002439.SZ	Venustech Group Inc	66.74	14.61
300768.SZ	Hangzhou DPtech Technologies Co Ltd	79.67	15.58
603232.SS	Koal Software Co., Ltd.	349.03	N/A
688168.SS	Beijing ABT Networks Co Ltd	231.51	N/A
688244.SS	Integrity Technology Group Inc	114.18	N/A
6690.TWO	Acer Cyber Security Inc	25.33	16.81
	Mean		15.67
	Applied ratio		15.67

* *Figures above are subject to rounding*

Notes:

N/A means extreme outliers or negative ratio which are not applicable for comparable analysis.

Based on the above table, the adjusted EV/EBIT ratio of the comparable companies ranged from the minimum of 14.61x to the maximum of 16.81x, resulting in a mean of approximately 15.67x.

Discount for Lack of Marketability

Peak Vision has adopted a lack of marketability discount of approximately 20.4% as ownership interest in closely held companies are typically not readily marketable compared to similar interest in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

The discount of 20.4% was determined with reference to Stout Restricted Stock Study Companion Guide (2024 Edition).

Calculation of Valuation Results

Based on Peak Vision's analysis as at the valuation date of 31 December 2024, the mean of the adjusted EV/EBIT ratio of the comparable companies was approximately 15.67x.

By applying the earnings before interests and taxes (i.e. excluding investment income, other income and interest expenses in the sum of approximately HK$1,618,000) of approximately HK$7,897,000 of the Target Company and lack of marketability discount, the implied values of 100% equity interest of the Target Company (non-controlling basis) as at the Valuation Date were in the sum of HK$92,057,000. Given the above, the market value of 30% equity interest of the Target Company as at the valuation date was in the sum of HKD27,617,000.

The Board has discussed and reviewed the valuation methodology and assumptions used by Peak Vision in formulating the valuation of the Target Company, and understands that Peak Vision has adopted the market approach for the valuation which was prepared with reference to the exhaustive list of comparable companies operating in a similar business as the Target Company, adjusted for the risk, market capitalization, and profitability of the Target Company being valued. After thorough consideration, the Board is of the view that the valuation methodology and assumptions used, and the valuation results are fair and reasonable.

Further, the Board acknowledged that Peak Vision had assigned the size premiums according to commonly adopted valuation study and agreed that the highest size premium should be assigned to the Target Company given that the Target Company is not listed and still at growing stage with highest uncertainties of development as compared to all other guideline public companies. The Board also acknowledged that the Damodaran Online as prepared by Aswath Damodaran is a commonly adopted source for county risk premium in valuation practices. The Board also agreed that only specific risk premium should be added on the Target Company in order to reflect its specific risk premium differentials to all other guideline companies. In view of the above, the Board is of the view that the adjustments of the multiples as adopted by the independent valuer is fair and reasonable.

INFORMATION OF THE GROUP

The Company is an investment holding company and the Group is principally engaged in its operation of financial service platforms. Such financial service platform has established comprehensive business process and technology system covering customer acquisition, risk identification, risk assessment, loan distribution channel, payment channel and big data analysis.

INFORMATION OF THE TARGET COMPANY

Principal business of the Target Company

The Target Company is a computer information service confidentiality provider that focuses on the encryption protection of private information and owns multiple national patents and software copyrights. The company's core technical team comes from Huawei and it also has in-depth technical cooperation with Huazhong University of Science and Technology and Hong Kong Polytechnic University.

The company is committed to edge security computing and encryption algorithm technology to achieve data protection, allowing customers to enjoy the convenience of life, work, and entertainment brought by IoT technology while fully protecting private data and information security. The company will continue to create decentralized security products and services based on the zero-trust concept. Gradually upgrade product applications from computer encryption to mobile devices, instant messaging, data storage and all IoT terminal devices.

The Target Company was established on 28 December 2020 by Ms. Niu, and has been in operation for over four years. As at the Latest Practicable Date, Ms. Niu holds 100% equity interests in the Vendor and Ms. Niu is the ultimate beneficial owner of the remaining 70% interest of the Target Company.

The products and service of the Target Company include:

1. Owner (網璽), which provides a secure file zone to allow users to encrypt and manage private files on their personal computers, ensuring that encrypted information is unbreakable. During storage or transmission of encrypted files via third-party software or platforms, or when using the product's unique encrypted sharing function to send encrypted files to others, the contents of the encrypted files remain inaccessible to unauthorized parties even if intercepted or misdelivered. The exclusive encrypted sharing function enables secure file transfer and access between users.

2. IoT Security Terminal which is used in system integration and Informatization/intelligent projects within IoT application fields. It is applied to secure access for IoT front-end devices (e.g., cameras, sensors, etc.) and integrates with the platform-side management system (secure gateway, trust center, configuration center) to identity verification for front-end device access, identity verification for user-side access and is for encryption and decryption of data transmission and storage.

3. Comprehensive cybersecurity solutions based on private network security, which provides business end users with customised comprehensive cybersecurity mechanisms based on private network security, establishing end-to-end and end-to-platform security protection levels. Key functions include secure access for various terminals, identity-based secure access and management for users, encryption and decryption of data transmission and storage, and visualised management of the platform. Flexible license authorisation mechanisms effectively manage and control project capacity, terminal, and user scale.

At the meantime, the products usage and application are as follows:

Owner 網璽 (Personal computer edition)

Includes a set of hardware devices (comprising one primary key device and one secondary key device) paired with secure zone system software for personal computer use. The main functions include multi-factor authentication, secure zone file management, file/folder encryption, file/folder decryption, encrypted sharing, and more. Supporting tools include secure zone backup file import/export, secure zone capacity expansion, key device password modification, and friend management. Based on a zero-trust security algorithm, it provides users with a decentralized information security tool for secure encryption protection and encrypted interaction of personal files on the personal computer.

Business license authorization service

Provides business-end clients with customized information security solutions based on zero-trust architecture technology, along with license authorization management services. Through dynamic identity verification, intelligent permission management, and continuous risk assessment, it reshapes the security defenses for business networks and data, adapting to hybrid work environments and multi-cloud setups. It integrates full lifecycle management services for licenses, enabling monitoring of user permission behaviors and flexible scalability support. This helps clients precisely control permission distribution and usage oversight, mitigating compliance risks. Through integrated technical deployment and ongoing operational maintenance services, it assists clients in building a flexible and scalable security management system while ensuring business efficiency.

In year 2024, approximately HKD12.4 million (2023: nil) of revenue arises from licensing and technology loyalty income of business license authorisation service, which is recognised by stages over the contract period, and HKD6.3 million (2023:HKD11.8 million) of revenue arises from sales of hardware devices, which is recognised upon delivery of products.

The Target Company's patents obtained in Hong Kong include: (1) Patent number: HK20056693 (Original Standard Patent) and (2) patent number HK30059107 (Short-term Patent). Patents obtained in mainland China include patent number: ZL202111438791.2.

As at the Latest Practicable Date, the Target Company has entered into long-term contracts with seven agents, and the number of end customers is around 4,500, primarily covering senior executives of administrative functions, company founders and technical directors, prominent social figures, institutions requiring confidentiality of commercial secrets, and individual users needing privacy for personal information. The agents and end customers are located in mainland China, Hong Kong and Southeast Asia countries.

At the meantime, several products and service are under development, including a mobile communication app built on decentralized architecture and zero-trust technology with independent genetic encryption, requiring no backend, a mobile file security zone management software built on decentralized architecture and zero-trust technology and a mobile key device built on decentralized architecture and zero-trust technology, with different versions planned for various user groups and functional scenarios. The above hardware and software products are expected to be launched between May and June 2025. The funding need for Target Company's research and development would be around HKD8 million to HKD10 million, and the current source of fund is from cash generated from the Target Company's operation.

The Target Company is dedicated to providing users (both customer-end and business-end) with decentralized security products and services based on the zero-trust concept, falling within the field of information security services for customer-end and business-end users.

The Target Company adopts an open technical cooperation model for design and research and development. Production is outsourced to contract manufacturers.

The technical research and development phase spanned from 2020 to 2021. The main products were launched progressively between 2021 and 2024. Products currently under development began research and development in late 2024.

About the business and revenue model of the Target Company. On one hand, through agents in several key regions in mainland China (Jiangsu, Anhui, Chongqing, Guizhou) and partners in Southeast Asia, the agents have established relatively stable revenue. On the other hand, with the successive launch of new products and services, the agents will further expand sales channels and diversify sales formats, particularly through their own platforms and comprehensive brand marketing strategies, seeking to attract more partners to join their market ecosystem.

The agents are all important partners of the Target Company, assisting Target Company in developing markets in their respective regions. Target Company's choice of a sales model involving regional agents and partners is primarily based on the following considerations:

(1) Market penetration and cost reduction: Regional agents are familiar with local markets, enabling them to quickly understand customer needs, formulate targeted sales strategies, and increase market share. Additionally, Target Company do not need to establish branches in every market, allowing Target Company to leverage the agents' existing resources. This reduces investments in manpower, materials, and finances, thereby lowering operational costs.

(2) Risk sharing: Regional agents bear part of the market risks, providing Target Company with a more stable business environment. Through collaboration with agents, the company can diversify market risks and mitigate the impact of market fluctuations.

(3) Pricing autonomy and profit margins: As exclusive operators in their designated regions, regional agents hold absolute control and can independently set prices, achieving profit margins significantly higher than the market average. This pricing autonomy allows agents to better manage costs and profits, enhancing their profitability and ability to handle risks.

(4) Brand resources and market support: As regional agents, they gain access to resources and support provided by Target Company, including product supply, market promotion, and brand and product image development. These resources significantly alleviate the pressure on entrepreneurs, increasing their opportunities and success rates. Furthermore, Target Company offers support for advertising and promotional activity expenses, as well as other marketing policy incentives, to help agents penetrate local markets more effectively.

(5) Exclusive regional contracts and competition Avoidance: Regional agents are granted exclusive operating rights in their authorized areas, preventing competition among Target Company's sales channels and resources within the same region and entered into long-term contracts. This ensures agents secure a larger market share and greater profits in their area while allowing Target Company to reduce internal friction and management costs.

(6) Personalized services: Regional agents have the ability to directly serve customers, offering customized services tailored to specific client needs, thereby meeting their unique demands.

The agents and partners are independent third parties of the Company.

The main operating locations of the Target Company is Hong Kong. The customer base is accumulated from resources of shareholders and the core team over years of historical business development. The chip suppliers are sourced through legitimate agent channels. Other suppliers rely on the well-established supply chain system in mainland China (particularly the Pearl River Delta region).

The business model and process of the Target Company is as follows:

– Register information for partners willing to act as sales agents, mainly including their business information, financial data, and other supporting materials that demonstrate their capability to cooperate.

– Conduct a preliminary review and verification of the aforementioned information, focusing on their operational capabilities, qualifications, and creditworthiness.

– Perform an on-site inspection of sales agents with physical business premises to further assess whether they possess the necessary qualifications and operational capabilities.

– Negotiate the contents of the sales agency contract with potential agents who pass the review, discussing specific terms and details, clarifying management responsibilities and performance evaluation metrics, and ensuring both parties reach a consensus on the cooperation terms.

– Once an agreement is reached, formally sign the sales agency contract, clearly defining the cooperative relationship and responsibilities of both parties.

– File and archive the relevant documents and records of the signed agents.

– Provide the sales agents with operational materials, documents, and other related resources.

– For sales agents who have signed the contract, the sales agent initiates a procurement application for reserve products, relying on these products to carry out daily sales and channel development.

– Based on their operational needs, sales agents dynamically manage the scale of their reserve products and submit procurement applications for supplementary products when replenishment is required.

– Allocate resources for the sales agents' procurement applications for reserve or supplementary products, and complete the preparation and shipping of the corresponding orders.

– Dynamically track the payment status of agents, following up on the collection of payments for the corresponding goods.

The core management and technical team of the Target Company consists of approximately 20 people. The core management team has many years of experience in the information technology industry and management, while the core technical team includes members with research and development experience at Huawei. Additionally, the company has deep technical collaborations with Huazhong University of Science and Technology and the Hong Kong Polytechnic University.

The Target Company aims to achieve data protection through edge security computing and encryption algorithm technologies, creating a commercial/personal space that fully protects private data and information security for users. Based on the zero-trust concept, the Target Company will continue developing decentralized security products and services, gradually expanding applications from computer encryption to mobile devices, instant messaging, data storage, and all IoT terminal devices. In the current internet environment, large companies and platforms maximize user value extraction through centralized management models, which poses both a disadvantage and an advantage for us as advocates of decentralization and zero-trust models which is the Target Company's competitive advantage.

For the industry trends of the Target Company's business, decentralized technology is transitioning from niche innovation to mainstream application, driving profound changes in industry dynamics:

1. Accelerated Technological Convergence: The integration of blockchain with AI and IoT is giving rise to autonomous commercial networks (e.g., automated supply chain settlements). Global DeFi locked value exceeds $100 billion, with an annual growth rate over 120%.

2. User Sovereignty Awakening: Demands for data ownership and profit-sharing are forcing platform transformations. Non-fungible toker (NFT) marketplaces like OpenSea have surpassed $50 billion in annual transaction volume, shifting the creator economy toward a "users-as-shareholders" model.

3. Regulatory Framework Competition: The European Union's Markets in Crypto-Assets Regularion (MiCA) legislation, Hong Kong's virtual asset licensing, and similar efforts aim to balance innovation and compliance, pushing technological upgrades (e.g., privacy computing to meet anti-money laundering requirements).

4. Infrastructure Boom: Distributed storage (e.g., Filecoin's storage capacity growing 300% annually) and cross-chain protocols are maturing, supporting the large-scale adoption of Web3 applications.

5. Geopolitical Competition Intensifies: The United States, China, and the European Union vie for standard-setting dominance, while Singapore, the United Arab Emirates, and others attract over 2,000 Web3 companies through policy incentives.

While performance bottlenecks, user experience barriers, and regulatory uncertainties still limit widespread commercialization – whether viewed from a broad industry or niche perspective – the coexistence of opportunities and challenges is evident. The trend of decentralization reshaping production relationships and trust mechanisms is irreversible, potentially becoming the dominant paradigm of the digital economy by 2030.

(1) Performance bottleneck refers to the contradictions and deficiencies in hardware conditions, network conditions, and technical conditions that arise in any period or situation when matching or supporting the real customer demands or application scenarios of the present. These bottlenecks do not disappear with the iterative computation, improvement, or advancement of hardware, network, or technical conditions. Instead, they persist and evolve due to changes in internal factors and the external environment, as customers' real demands are also continuously increasing and evolving.

(2) User experience barriers refer to issues of smoothness, convenience, or functionality that users encounter when using a product or service. Resolving these barriers is not a one-time fix, as technological progress and the application of new technologies in product iterations or new product development make improving user experience an enduring theme between developers and users.

(3) Regulatory uncertainty refers to the impacts on regional or local markets caused by factors such as intensifying geopolitical competition, policy changes in specific countries or regions, and the disruption of traditional industries by new technologies and innovations.

It is precisely because of the contradictions and deficiencies in the aforementioned scenarios, the volatility of the market environment, and the uncertainty of the policy landscape that we remain confident in the development direction of the data security industry and believe that decentralized business and technical architecture based on the zero-trust concept will become a significant branch in the industry's evolution. We hold an optimistic outlook for the market effects that will result from the subsequent launch of the Target Company's products and services.

Financial information of the Target Company

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

	For the year ended 31 December 2023 (audited) *HKD*	**For the year ended 31 December 2024** (unaudited) *HKD*
Revenue	11,762,360	18,720,440
Profit before taxation	496,050	9,515,064
Profit after taxation	388,314	8,195,064

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 HKD23,225,705 and HKD10,270,758, respectively. The increase in revenue and profit before tax of the Target Company from 2023 to 2024 is mainly because of the increase in licensing and technology loyalty income of the products and services. The audited financial information of the Target Company for the year ended 31 December 2024 will be available around June 2025.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE TRANSACTIONS

Per the Company's announcement dated 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 Target Company is the prospective partner as mentioned in the announcement. The Company and the Target Company were in the process of discussing possible ways of cooperation. The Company's potential cooperation with the Target Company includes, but is not limited to, business cooperation, technical exchange, equity investment, capital increase and share expansion. As at the Latest Practicable Date, the Target Company has enough working capital and the Company have not yet had any capital commitment or agreement to provide for the Target Company's working capital or research and development. The acquisition of 30% of the Target Company is through commercial negotiation whereas the Company will have a significant influence to the Target Company and the original ultimate beneficial owner, Ms. Niu, will keep a controlling shareholding of the Target Company. Perusal to the memorandum of understanding and the Equity Sale and Purchase Agreement, the Company will have significant influence to the Target Company after the acquisition and the Target Company will have monthly meetings with the Company for (i) updating and receiving feedback about the operation status and financial results of the Target Company (ii) carrying out discussion about the current and upcoming commercial cooperation between the Company and the Target Company according to memorandum of understanding and the Equity Sale and Purchase Agreement.

After entering into the memorandum of understanding per above, the Company has had frequent interaction with technicians of the Target Company to understand the technology of the products and walk 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. Further, after consideration of the reasons and benefits below, the Company decided to acquire the Target Company. The Target Company is with unique technology and products in Hong Kong and the management of the Company cannot locate other similar target from independent third parties willing to have similar cooperation with the Group at the same time.

For the process of acquiring the Target Company, the management of the Company begins by identifying whether acquiring the Target Company aligns with the Company's strategic goals. Further, financial due diligence is carried out to verify the Target's financial health, legal due diligence is carried out to confirm the Target's legal standing and valuation is carried out to ensure the deal price is fair.

The Group's decision to acquire the Target Company focused on edge security computing and encryption algorithm technology aligns strategically with their core business operations in financial services. The following are reasons for and benefits of this acquisition:

Data Protection and Security Enhancement: By acquiring a company specializing in edge security computing and encryption algorithm technology, the Group can enhance the security measures of its financial service platforms. This acquisition will enable the Group to strengthen data protection, mitigate cybersecurity risks, and ensure the confidentiality, integrity, and availability of sensitive customer information.

IoT Technology Integration: With an increasing reliance on IoT technology in various aspects of life, work, and entertainment, the acquisition of a company focusing on edge security computing will allow the Group to seamlessly integrate IoT devices into its ecosystem. This integration can enhance the functionality of their financial services platform while ensuring that customer data remains secure across all IoT devices.

Zero-Trust Security Model: The acquisition aligns with the Group's vision of creating decentralized security products and services based on the zero-trust concept. By adopting a zero-trust security model, the company can establish strict access controls, continuous monitoring, and data encryption at every touchpoint, thereby enhancing the overall security posture of its operations.

Zero trust is a security strategy for modern multicloud networks. Instead of focusing on the network perimeter, a zero trust security model enforces security policies for each individual connection between users, devices, applications and data. Zero trust operates on the principle of "never trust, always verify" rather than granting implicit trust to all users inside a network. This granular security approach helps address the cybersecurity risks posed by remote workers, hybrid cloud services, personally-owned devices and other elements of today's corporate networks.

Product Diversification and Innovation: Through this acquisition, the Group can diversify its product offerings by introducing advanced security solutions based on cutting-edge encryption algorithms and edge computing technologies. This diversification can attract new customers, drive innovation within the organization, and position the company as a leader in providing secure financial services in a digitally connected world.

Future-Proofing the Business: As technology evolves rapidly, acquiring a company specializing in edge security computing and encryption algorithm technology can future-proof the Group's business operations. By staying ahead of cybersecurity threats and technological advancements, the company can adapt to changing market demands, regulatory requirements, and customer expectations, ensuring long-term sustainability and growth.

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.

In summary, the acquisition of a company dedicated to edge security computing and encryption algorithm technology presents the Group with an opportunity to leverage the technology and expertise of the Target Company and enhance data protection, integrate IoT technology securely, adopt a zero-trust security model, diversify product offerings, by introducing advanced security solutions based on cutting-edge encryption algorithms and edge computing technologies and future-proof its business operations by staying ahead of cybersecurity threats and technological advancements, the company can adapt to changing market demands, regulatory requirements, and customer expectations. As mentioned above, the synergy includes leveraging the technology and expertise of the Target Company by using the technology and solution of the Target Company through licensing, cross-referral of respective products and service to customers. This strategic move can strengthen the company's position in the market and foster trust among customers who value privacy and security in their financial transactions.

The Company has management expertise in financial service platform, which could facilitate the upgrade of the financial service platform by using and integrating the Target Company's products and services. As stipulated in the Equity Sale and Purchase Agreement, the Company has access to the updated financial information of the Target Company to understand its latest operation status. The Company and the Target Company will discuss about the current and future cooperation regularly.

Up to the Latest Practicable Date, the Company has no any intention to acquire further interests in the Target Company. The Company does not have a plan to make any capital contribution to the Target Company.

Having considered the above factors, the Board considers that the terms of the Equity Sale and Purchase Agreements are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

APPROVAL OF THE BOARD

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the Equity Sale and Purchase Agreements. Directors have unanimously approved the Equity Sale and Purchase Agreements, and considered that the terms of the Equity Sale and Purchase Agreements are on normal commercial terms, fair and reasonable, and the Equity Sale and Purchase Agreements are in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As of the Latest Practicable Date, Ms. Niu holds approximately 44.90% of the issued share capital of the Company and is therefore a connected person of the Company. Since one or more applicable percentage ratios (as defined in the GEM Listing Rules) in relation to the Equity Sale and Purchase Agreements are above 5%, according to Chapter 20 of the GEM Listing Rules, the transactions contemplated under the Equity Sale and Purchase Agreements will constitute non-exempt connected transaction of the Company and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

As one or more of the relevant percentage ratios (as defined in the GEM Listing Rules) of the Equity Sale and Purchase Agreements exceed 5% but are less than 25%, the Equity Sale and Purchase Agreements constitute discloseable transaction of the Company and are subject to relevant notification and announcement requirements under Chapter 19 of the GEM Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the transactions contemplated under the Equity Sale and Purchase Agreements, and Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions contemplated under the Equity Sale and Purchase Agreements, and whether such transactions are in the interests of the Company and its shareholders as a whole.

OTHER MATTERS

The Independent Board Committee comprising of all the independent non-executive Directors has been formed to advise the Independent Shareholders on the transactions contemplated under the Equity Sale and Purchase Agreements, and Hooray Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions contemplated under the Equity Sale and Purchase Agreements, and whether such transactions are in the interests of the Company and its shareholders as a whole.

There will be no change to the aggregate of the remuneration payable to and benefits in kind receivable by the Directors as a result of the Acquisition.

EGM

The Company will convene the EGM at Units 1203B, 1204–1205, 12/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong, on Friday, 23 May 2025 at 12:30 p.m., at which the resolutions will be proposed for the purpose of considering and, if thought fit, approving, among others, the transactions contemplated under the Equity Sale and Purchase Agreements. The notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use in connection with the EGM is enclosed with this circular and can also be downloaded from the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fengyinhe.com). If you are not able or do not intend to attend the EGM in person and wish to exercise your right as a Shareholder, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event, not later than 48 hours before the time appointed for holding the EGM or its adjournment (as the case may be). Completion and return of the form of proxy will not preclude any

Shareholder from attending in person and voting at the EGM or its adjournment should he/she/it so wishes. If the Shareholder attends and votes at the EGM, the instrument appointing the proxy will be deemed to have been revoked.

As the Latest Practicable Date, to the best of the Director's knowledge, information and belief and having made all reasonable enquiries, other than Ms. Niu who shall abstain from voting at the EGM in respect of the Equity Sale and Purchase Agreements, none of the Directors or Shareholders has a material interest on the resolutions proposed at the EGM, and no Shareholder is required to abstain from voting on any of the resolutions at the EGM.

VOTING BY POLL

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions as set out in the notice convening the EGM will be voted by poll and, after being verified by the scrutineer, the results of the poll will be published in the manner prescribed under Rule 17.47(5) of the GEM Listing Rules.

RESPONSIBILITY STATEMENT

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

RECOMMENDATION

The Directors believe that the proposed resolutions relating to the Equity Sale and Purchase Agreements are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the resolutions to be proposed at the EGM.

GENERAL

Your attention is drawn to the information set out in the Appendices to this circular.

MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

For and on behalf of
Fengyinhe Holdings Limited

Liu Yi
Executive Director