ICO GROUP LIMITED
揚科集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1460)

SUPPLEMENTAL ANNOUNCEMENT
DISCLOSEABLE TRANSACTION IN RELATION TO FURTHER ACQUISITION OF EQUITY INTEREST IN THE TARGET COMPANY
AND
PLACING OF NEW SHARES UNDER GENERAL MANDATE

Financial adviser to the Company

MERDEKA 領智

Placing Agent

結好證券有限公司
GET NICE SECURITIES LIMITED

Reference is made to the announcement of ICO Group Limited (the "**Company**") dated 27 August 2020 (the "**Announcement**"). Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless defined otherwise.

* *For identification purposes only*

The Company would like to supplement further information in relation to the Announcement:

THE PLACING AGREEMENT

Placing Price

The Placing Price was negotiated on an arm's length basis between the Company and the Placing Agent after taking into account factors including the recent market price of the Shares and the current market conditions, in particular the (i) overall downward trend of the Shares in the 12 months ending on the date of the Placing Agreement i.e. 28 August 2019 to 27 August 2020 (the "**Relevant Period**"); (ii) the Shares traded at a discount to the net asset value of the Company per Share throughout the Relevant Period; and (iii) the discount represented by the Placing Price to closing prices of the Shares is within the range of placings under general mandate conducted in the recent two months immediately before the date of the Placing Agreement as illustrated below.

In order to assess the fairness and reasonableness of the Placing Price, the Company identified all placings of new shares under general mandate announced by companies listed on the Stock Exchange (the "**Placing Comparables**") during the two months period prior to the date of the Placing Agreement, and the discount represented by the Placing Price to the benchmark prices of the Shares lies within range of discounts among the Placing Comparables (i.e. a minimum to maximum discount of 0% to 19.80% in reference to the last trading day and a minimum to maximum discount of 0.56% to 20.29% in reference to the last five trading days up to and including the last trading day), and is very close to the average discount in the Placing Comparables (i.e. an average discount of approximately 10.11% to the last trading day and an average discount of approximately 9.89% to the last five trading days up to and including the last trading day). The discount represented by the Placing Price to the benchmark prices of the Shares also lies within the general range among the Placing Comparables (i.e. a maximum premium to a maximum discount of 14.58% to 19.80% in reference to the last trading day and a maximum premium to a maximum discount of 3.74% to 20.29% in reference to the last five trading days up to and including the last trading day), and is very close to the general average of the Placing Comparables (i.e. an average discount of approximately 8.75% in reference to the last trading day and an average discount of approximately 8.48% in reference to the last five trading days up to and including the last trading day).

Since the Placing was conducted on a fully-underwritten basis, the Board is of the view that setting the Placing Price equal to or at a minimal discount to the recent trading prices of the Shares would not be attractive enough to the investors given that (i) under the current market sentiment and projection, it is uncertain that when the economy is going to recover from the downturn; and (ii) closing prices of the Shares shown an overall downward trend during the Relevant Period.

Whilst the Placing Price represents a discount of approximately 60.56% to the audited consolidated net asset value per Share of approximately HK$0.071 based on the published audited total equity attributable to equity shareholders of the Company of approximately HK$442.03 million as at 31 March 2020 as extracted from the annual report of the Company for the year ended 31 March 2020 and the issued share capital of the Company of 6,225,393,129 Shares as at the date of the Placing Agreement, the Board is of the view that the net asset value per Shares is not a relevant factor to determine the Placing Price due to the fact that the Shares traded below the net asset value per Shares continuously during the Relevant Period. Under the current market condition and with reference to the recent market performance of the Shares, it would not be practical and make any commercial sense to set a placing price which is significantly higher than the prevailing market price, which would defeat the whole purpose of attracting placees for new funding.

Having further considered (i) the downward trend of the market prices of the Shares during the Relevant Period; (ii) it is a normal practice to set the placing price at a discount to the prevailing market price in order to attract placees, especially under the current market conditions; and (iii) the discount represented by the Placing Price to the closing price per Share on Last Trading Day and the average closing price per Share for the last five consecutive trading days lie within the range of the Placing Comparables, the Board considered that the Placing Price is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Placing Agent

In order to identify the placing agent for the proposed Placing, the Company through the assistance and introduction of its financial adviser, has contacted and considered four securities companies. Among them, two securities companies refused to fully underwrite the Placing.

Upon comparison of the commission fee quoted by Get Nice Securities Limited and the other securities company, the Board decided to engage Get Nice Securities as the Placing Agent.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, there is no relationship between the Vendors, the Placees and the Placing Agent or between their respective connected persons.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Company has considered other equity financing options such as a (i) rights issue or open offer; and (ii) conventional debt financing, other than the Placing to finance the Acquisition.

According to the annual report of the Company of the year ended 31 March 2020, the Company has no outstanding bank loans. The Company would like to preserve its low gearing ratio and reserve its available banking facilities for any potential future shortfalls in working capital or future projects of the Company given that the projects of the Company generally incur significant costs and expenses at the commencement of such projects. The Directors also considered that using debt financing will incur interest burden.

On the other hand, a rights issue or open offer may involve relatively substantial time and cost to complete as compared to the Placing. The Board considers that when compared with the Placing, a rights issue or open offer will incur much higher administrative costs, professional fees and other expenses.

In addition, in view that the equity fund raising size is not substantive, the Board is in the view that issuing the Placing Shares under General Mandate is the most cost effective and efficient financing option for the Company to capture the investment opportunity.

The theoretical value dilution of the Placing is approximately 1.48% discount to the benchmarked price and the Placing Shares represents only 13.48% of the existing issued Shares. As such, the Board, after taking into account the dilution impact of the Placing to the Company's minority shareholders and the reasons and factors as abovementioned, is of the view that the financing of the Acquisition via the Placing is fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

SALE AND PURCHASE AGREEMENT

Consideration

The calculation of the implied P/E ratio of the Consideration (the "**Implied P/E Ratio**") is illustrated below:

Consideration = C = HK$18,000,000
Equity interest to be acquired = E = 30%
Net profit after tax for the year ended 31 March 2020 = P = HK$9,975,941

Implied P/E Ratio = (C/E)/P = (18,000,000/0.3)/9,975,941 = 6.01 times

In order to determine the fairness of the Consideration, the Board made reference to the P/E ratios of four comparables companies in the market. The selection criteria for the comparables are companies that are (i) listed on the Stock Exchange; and (ii) engaged in the development and sales of PoS business (makes up >50% revenue for the most recent financial year), and makes reference to the net profit after tax for the most recent financial year and the market price of the relevant comparable company as at the date of the Sale and Purchase Agreement (i.e. 27 August 2020). Thus, found that the Implied P/E Ratio is below all of the P/E ratios of the all above comparables (i.e. a minimum P/E of 7.72 and an average P/E of 18.21) suggesting that the Consideration is fair and reasonable in comparison to the price of comparable companies in the market.

Despite the low number of comparables, it does not devalue their importance as a reference point in the basis of the Consideration as they are the most reliable reference for the value of similar companies in the market, and especially as the number of listed market participants in the same industry as the Target Company in Hong Kong is itself limited. The comparables were used only as reference as indicated by how the Implied P/E is not actually within the range of the comparables but rather is lower than all the comparables which is due to the Board taking into account that (i) PointSoft is not a listed company; and (ii) is of a smaller size than the comparables.

The basis of the Consideration had taken into account (i) the net asset value of PointSoft; (ii) the Implied P/E Ratio of approximately 6.01 times is below the minimum P/E ratios of the comparable companies listed on the Stock Exchange that are principally engaged in the development and sale of PoS systems, with P/E ratios ranging from 7.72 times to 33.99 times; and (iii) the control premium of the Company after the Acquisition Completion.

Reference is also made to the acquisition of 40% equity interest in PointSoft dated 20 June 2018 (the "**1st Acquisition**"). The then implied P/E ratio of the consideration for the 1st Acquisition was 11.81 times, which is almost double to the Implied P/E of 6.01 times.

Besides, the Board had also considered the decrease in the profit after tax of PointSoft from HK$11.8 million for the year ended 31 March 2019 to HK$10.0 million for the year ended 31 March 2020, representing a decrease of approximately 15.25% only. Taking into account (i) the weakened consumer sentiment caused by the social unrest in Hong Kong since June 2019; and (ii) the outbreak of the COVID-19 pandemic since February 2020, the Board is of the view that the deteriorating performance of PointSoft for the financial year ended 31 March 2020 is not significant and that a single year of decrease in profit is not indicative of a trend. According to the historical financial performance of PointSoft, the audited net profit for the year ended 31 March 2018, 2019 and 2020 was approximately HK$10.7 million, approximately HK$11.8 million and approximately HK$10.0 million respectively. The financial performance of PointSoft is quite stable and is not materially affected by the current economic slump. The major customers of PointSoft are large scale beverage groups and have maintained long term relationships with PointSoft. Therefore, the Board is optimistic about the prospects of PointSoft. Regardless the Board has taken such decrease into account and was a factor in determining the Profit Guarantee.

The decrease in the net asset value of PointSoft from approximately HK$10 million as at 31 March 2019 to approximately HK$5.5 million as at 31 March 2020 was primarily due to the issue of HK$15 million in dividends for the financial year ended 31 March 2020. PointSoft's net asset value primarily consists of trade and other receivables and cash and cash equivalents which amounted to approximately HK$7.6 million as at 31 March 2020, representing approximately 92.7% of PointSoft's total assets of approximately HK$8.2 million as at 31 March 2020. PointSoft's plant and equipment and inventories made up approximately HK$0.6 million as at 31 March 2020, representing approximately 7.3% of PointSoft's total assets of approximately HK$8.2 million as at 31 March 2020.

PointSoft does not rely on its assets to generate profit as PointSoft is principally engaged in the development and sales of PoS systems as a software as a service provider. Accordingly, PointSoft operates as an asset light business and does not rely on assets to generate revenue like a manufacturing company would, as noted by its relatively minimal level of assets.

Taking into account the abovementioned figures and factors the Board is of the view that PointSoft's ability to generate revenue and profit is not significantly correlated to its assets and definitely not significantly correlated to its net asset value and as such the Board is of the view that it would not be fair and reasonable to determine the Consideration based on PointSoft's net asset value.

Taking into account (i) the Implied P/E of 6.01 is below the range of comparable companies in the market; (ii) the inapplicability of PointSoft's net asset value; and (iii) the Consideration has a lower implied P/E than the consideration for the 1st Acquisition, the Board is of the view that the Consideration is fair and reasonable.

Profit Guarantee

The Guaranteed Profit was determined with reference to (i) the historical financial performance track records and net profits of PointSoft; (ii) the net profit of PointSoft of approximately HK$10 million for the year ended 31 March 2020; (iii) the guaranteed profit pursuant to the first acquisition of 40% equity interest of PointSoft as announced by the Company on 20 June 2018.

Mr. Chai, as one of the Vendors, who is one of the founders of PointSoft and is mainly responsible for marketing and customers relations of PointSoft, will be leaving the Target Company after the Acquisition Completion. The departure of Mr. Chai will not have a material impact on the operations of PointSoft as (i) the daily operations and technical developments of PointSoft are overseen by Mr. Yuen; (ii) the Company believes that upon PointSoft becoming a subsidiary of the Group, it will create synergy effects and PointSoft can rely on the resources of the Group such as the Group's sales and marketing teams as well as the goodwill and listing status of the Company and accordingly the marketing and customer relations work normally overseen by Mr. Chai could be seamlessly undertaken by the Group after Mr. Chai's departure; and (iii) Mr. Chai will act as a consultant to the Group to provide support during the handover period.

As Mr. Chai will no longer directly participate in any operations of PointSoft upon the Acquisition Completion, he can no longer guarantee the amount of profit generated from the operation of PointSoft subsequent to his departure. After arm's length negotiations between the Vendors and the Purchaser, both parties agreed that the Profit Guaranteed Period will cover until 30 September 2020 to guarantee the operation and profitability is healthy and stable before the Acquisition Completion.

Based on the information available to the Company so far, the operation and performance of PoinSoft is in line with its track record and should be on track to achieve a level of profitability consistent with the Guaranteed Profit. Having further considered the abovementioned factors, the Board is of the view that the Profit Guarantee adequately protects the Company's interest in the Acquisition and is fair and reasonable and in the best interests of the Company and the Shareholders.

SHARE CONSOLIDATION AND CHANGE IN BOARD LOT SIZE

The Board announces that the Company proposes to implement a share consolidation and change in board lot size. Details of the share consolidation and change in board lot size will be announced in due course.

WARNING

As the Acquisition Completion is conditional upon fulfilment of the Acquisition Conditions including, among others, the Placing Completion, set out in the Sale and Purchase Agreement, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

As the Placing Completion is conditional upon fulfilment of the Placing Conditions set out in the Placing Agreement, the Placing may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

By order of the Board
ICO Group Limited
Leong Yeng Kit
Chairman and Executive Director

Hong Kong, 17 September 2020

As at the date of this announcement, the executive directors of the Company are Mr. Leong Yeng Kit and Ms. Lee Pei Ling; the non-executive directors of the Company are Mr. Leong Yeng Kong, Ms. Leong Poh Chih, Mr. Leong Yeng Weng, Ms. Walaiporn Orakij and Ms. Durgadewi Yoganathan; and the independent non-executive directors of the Company are Mr. Tan Eng Wah, Mr. Gan Cheng Khuan, Ms. Yvonne Low Win Kum and Mr. Chiu King Yan.