國投集團
VESTATE

VESTATE GROUP HOLDINGS LIMITED
國投集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1386)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO MAJOR TRANSACTION ACQUISITION OF 51% ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND DELAY IN DESPATCH OF CIRCULAR

Reference is made to the announcements of the Company dated 9 March 2021, 10 March 2021, 11 March 2021, and 12 March 2021 (the "**Announcements**"). Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless otherwise stated. In addition to the information provided in the Announcements, the Board would like to provide further information in relation to the major transaction acquisition.

Upon Completion of the acquisition, the Group will be operating both the existing businesses of the Group (the "**Existing Businesses**") and the business operated by the Target Group (the "**Acquired Business**"). The Group and the Board did not have any agreement, arrangement, understanding, intention, negotiation about any disposal, termination or scaling down of the Existing Businesses.

For the six months ended 30 September 2020, (i) revenue of the Group was contributed by 3 business segments (i.e. retail business, finance services business and e-Commerce and e-Payment) and all of such business segments recorded segment profits; and (ii) the Group recorded net cash inflow from operating activities of approximately HK$8.5 million. The Group will continue to pursue development and expansion of the Existing Businesses, and considers that the Existing Businesses will continue to make significant contribution to the Group's operation and performance and remain as major business segments of the Group.

Alongside with the development of the Existing Business, the Acquisition represents the Group's business strategy in expanding into the Acquired Business with growth potential for generating diversified income and additional cashflow. The Group intends to enhance its operation scale and profitability through the development of both the Existing Business and the Acquired Business.

Based on the foregoing, the Board is of the view that the Acquisition would not result in a fundamental change in the Group's business.

BUSINESS PLAN AND SCALE OF OPERATIONS OF THE GROUP'S PRINCIPAL ACTIVITIES

(i) Retailing of Footwear

All footwear retail stores in Hong Kong and the PRC had been closed in early 2020, as the Group has taken the approach to concentrate its resources to develop its e-commerce business and shifted the sale of footwear products to online sale. Currently, the Group sells footwear through online sales platforms operated by third parties including Taobao, JD and TMall. The Group offers a diversified range of footwear products including formal, smart casual, sports casual and casual footwear products under its in-house authorized brands.

The Group aims to expand its online sales channels and continuously enhance brand recognition in markets. The Group intends to maintain its sales in footwear through existing e-commerce platforms in the PRC, and believes it can expand consumer reach by taking advantage of the established consumer base and brand recognition of the major e-commerce platforms.

The Group has began initiative in planning to establish mobile applications to further solicit new customers through different e-channels. The Group is of the view that it is critical to maintain its awareness through existing customers as well as potential customers, which are predominantly young to middle aged. In this case, the establishment of dedicated mobile app may trigger higher retention rate, along with built in loyalty programs. In addition, the footwear design and development team of the Group has attended fashion and footwear trade fairs and exhibitions to keep abreast of the latest footwear trends and development, and through these experiences, introduce new ideas and elements to the Group's footwear products.

(ii) Operations of Convenience Store

The Group focuses on rendering of franchises and management services to convenience stores located in the PRC. A commissioned management business model (franchisee model) is adopted in this segment, whereby 國信全聯便利店有限公司 (the "**Franchisor**") procures/establishes a store, and the potential franchisee will pay a performance bond. The Group has granted franchises to approximately 50 convenience stores owned by independent third parties across provinces in the PRC.

In order to broaden the geographical coverage of the Convenience Stores, the Group is deciding on the feasibility to uplift the overall awareness of the convenience stores to attract new potential franchisees. In addition, to optimize the client's accessibility and choices to consumer goods, the team has been increasing its exposures to new consumer products and new suppliers by attending trade shows, in order to optimize its pricing policy and controlling its procurement costs. The Group has been soliciting its customers through the use of local agencies, as well as referrals from existing franchisee, however now intends to focus on carrying out advertising through Wechat channels to drive down other unnecessary fees and costs.

(iii) Financial Services Business

The Group possesses a Money Lenders License under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). For the year ended 31 March 2020, the financial services segment recorded revenue of approximately HK$12.2 million. The revenue from financial service segment represents interest income from loan receivable.

In respect of money lending services, the Group offers a personal loan and corporate loan to fulfill different financing needs of the clients for return of interest income. Currently, the Group only solicits its customers from business referrals of existing clients or business connections of the management team, and does not actively seek new clients.

(iv) e-Commerce and e-Payment business

The Group is designated by UnionPay International Co., Ltd as its overseas UnionPay card acquiring institution and has granted the authorisation to conduct offline acquiring business in Hong Kong, Italy, France, Korean and Japan. At present, the Group actively seeks the suitable merchant to install the point-of-sale terminals to develop the offline acquiring business. This business runs through two major payment methods – traditional UnionPay credit card method and the newer QR Code method. The Group consistently solicits new customers through referrals and local agencies, and has accumulated over 200 customers.

The Board is confident that QR code payment will gain mainstream prominence, therefore plans to further promote the QR code payment to attract a wider customer base. The Group intends to strengthen the referral network as it allows the Group to target potential customers more precisely and procure new customers in a cost-effective manner.

COMPANY AND THE BOARD'S EXPERTISE AND EXPERIENCE

Mr. Yin Wansun ("**Mr. Yin**"), an executive Director of the Company, holds a Bachelor's Degree in Engineering from the Dalian University of Technology (formerly known as 大連工學院) in the PRC. He has substantial years of experience in the field of manufacturing engineering and general management and has concrete knowledge in computer-aided engineering technology and production system. On the other hand, Mr. Yin Wansun is not the senior management of the OPCO, and upon Completion, the OPCO will become a subsidiary of the Company. In Mr. Yin's capacity as an executive Director, he will be overseeing the overall business activities of the Group, including the OPCO upon Completion.

Pursuant to the Agreement, Mr. Cheng Zhengwei ("**Mr. Cheng**"), a director and general manager of the OPCO, will continue to serve the OPCO for 3 years after Completion. Mr. Cheng established the OPCO in 2014 and he is the founder of the OPCO. He graduated from Hengyang Normal University with a bachelor degree in industrial electrical automation in 2009. Prior to founding the OPCO, he worked in Guangdong Topstar Tech Co. Ltd. (300607:Shenzhen), a company principally engaged in providing industrial automation solutions and related equipment, responsible for project management. Mr. Cheng has over 10 years of experience in mechanical engineering and production and manufacturing designs. He is involved in both the overall technical and general management of the OPCO.

In view of Mr. Yin's education background and experience in engineering industry, alongside with the retention of Mr. Cheng and continuous monitoring by the Company, the Board considers that the business and operation of the OPCO will be effectively managed. The Board considers that skilled staffs equipped with appropriate knowledge in manufacturing engineering is crucial for management the OPCO, as such, the Group will from time to time, identify, hire and motivate skilled and experienced candidates to ensure efficient operation of the OPCO Group. The Group will take multi-channel, such as campus recruitment, referral and social recruitment, to recruit suitable candidates.

THE VALUATION

B.I. Appraisals Limited (the "**Valuer**"), the independent qualified professional valuer appointed by the Company to conduct the valuation on the OPCO has experience in business and intangible assets valuations, financial instruments valuations, property valuations, purchase price allocations, machineries and equipment valuation and corporate advisories. Mr. William Sham, the executive director of B.I. Appraisals Limited, has over 35 years in business, tangible/intangible assets, financial instruments and other valuations and consultations.

As advised by the Valuer, the Board is made known that the Valuer has considered three generally recognised valuation approaches, namely the asset approach, income approach and market approach. Regarding the asset approach, the Valuer considered that it is not appropriate to be used in the Valuation as the value of equity interest in the OPCO is determined based on the replacement cost or reproduction cost rather than the ability to generate streams of benefits in the future. The Valuer considered that the adoption of asset approach in this case may not be appropriate as it cannot reliably reflect the value of the equity interests of the OPCO.

Regarding the income approach, the value of the equity interest of the OPCO is determined based on the estimation of the projected inputs, such as projected revenue, operating costs and risk-adjusted discount rate. To the best knowledge of the Valuer, the revenue and cost of main business, solution of factory automation equipment, is significantly affected by the government policy and technology development. Hence, the Valuer considered that uncertainty would be involved inevitably in forming a reliable financial forecast, i.e. revenue forecast, revenue growth, profit margin.

Under the market approach, the value of the equity interest of the OPCO could be determined based on the recently published financial data of listed comparable companies such as the market capitalisation and financial results. The Valuer advised that market approach is an appropriate method for the Valuation as there were sufficient number of comparable publicly traded companies available in the market. In determining the value, the Valuer had adopted the guideline public company method ("**GPC Method**") which is one of the common methods to carry out the valuation under market approach. The Board noted from the Valuer that the rationale behind the GPC Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence and are readily available for comparison purpose. As advised by the Valuer, the OPCO has historical earnings records and there is sufficient number of publicly traded companies available in the market, therefore, the GPC Method under the market approach is considered as the most appropriate and reliable method for the Valuation.

Having considered that (i) GPC Method is a common method to carry out the valuation using market approach; (ii) the rationale behind the GPC Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence and are readily available for comparison purpose; and (iii) the OPCO has historical earnings records, the Board is concur with the view of the Valuer that the GPC Method under the market approach is an appropriate valuation methodology in valuing the equity interest of the OPCO and the basis of the Valuation is fair and reasonable.

It is understood by the Board from the Valuer that the most preferable valuation multiples for valuing equity value is Price-to-Earnings multiple ("**P/E**"). P/E is an appropriate valuation multiple for the Valuation because it measures the amount an investor, or a shareholder, is paying for a dollar of earnings and earnings power is the primary determinant of investment value.

The Board has discussed with the Valuer regarding the comparables adopted in the Valuation, as advised by the Valuer, since the 2020 financial year annual reports of the comparable companies are published at the end of April 2021, the Valuer has updated the list of comparable companies for the Valuation and has identified 7 comparable companies (the "**Comparable Companies**") which were selected with reference to the following criteria:

(1) The companies are principally engaged in providing solution of factory automation equipment mainly in the PRC;

(2) The companies are profit making in latest financial year; and

(3) The financial information of the companies is available to the public.

Set out below is the geographical segment regarding the revenue of each of the Comparable Companies according to the 2020 financial year annual reports of the Comparable Companies:

No.	**Company Name**	**Stock Code**	**Geographical Segment** *(Revenue % from the PRC)*
1	Guangdong Topstar Technology Co Ltd	300607 CH	81%
2	Shenzhen Colibri Technologies Co Ltd	002957 CH	57%
3	Suzhou Secote Precision Electronic Co Ltd	603283 CH	61%
4	Dalian Haosen Equipment Manufacturing Co Ltd	688529 CH	99%
5	Suzhou Harmontronics Automation Technology Co Ltd	688022 CH	77%
6	Shanghai SK Automation Technology Co Ltd	688155 CH	91%
7	Jiangsu Beiren Robot System Co Ltd	688218 CH	100%

As advised by the Valuer, all the Comparable Companies fare engaged in the similar business of the OPCO. The Valuer considers that the Comparable Companies adopted in the Valuation represents an exhaustive list and would provide a fair appraisal value of the OPCO. The Directors concur with the view of the Valuer that the Comparable Companies are fair and representative samples and are sufficiently comparable to the OPCO.

The Board noted that discount for lack of marketability and control premium were applied in the Valuation and the Board has discussed with the Valuer in respect of the aforesaid valuation parameters.

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the result of the restricted stock study published in "Stout Restricted Stock Study 2020" by Stout Risius Ross, LLC, a discount for lack of marketability of 20.60% was adopted in the Valuation.

A control premium generally represents the amount paid by an investor for the benefit of controlling the subject company's assets and cash flows. Under the public guideline company method adopted for the valuation, the value of the OPCO derived from the model is implicitly embedded with the discount for lack of control. As 51% equity interest is acquired, the fair value of the equity interest of the OPCO should be based on a control shareholding basis for the purpose of this valuation. Thus, the median control premium of 465 observed transaction of 24.50% has been adopted to reflect the higher marketability of a controlling interest compared to a minority interest with reference to the Mergerstat Control Premium Study (3rd quarter of 2020) published by FactSet Mergerstat, LLC., an independent information provider for merger and acquisition transaction data.

It is understood by the Board from the Valuer that as there are size difference between the OPCO and the Comparable Companies, relative adjustment by specific size premium has been made and the adjusted P/E multiples are applied.

The calculation of the P/E multiples is as below:

	Stock Code	**(A)** **FY2020 Net Income attributable to the Company's shareholders** *(RMB Million)*	**(B)** **Market Capitalization as at 31 January 2021** *(RMB Million)*
1	300607 CH	520	11,431
2	002957 CH	175	7,907
3	603283 CH	137	5,168
4	688529 CH	82	3,885
5	688022 CH	44	3,046
6	688155 CH	61	6,467
7	688218 CH	30	1,853

	(C)=B/A **P/E**	**(D)** **Size Premium Differential** *(Note)*	**1/(1/C+D)** **Adjusted P/E Multiple**
1	22.00	1.92%	15.46
2	45.21	1.92%	24.20
3	37.63	1.92%	21.85
4	47.28	1.92%	24.78
5	68.99	0.00%	68.99
6	106.48	1.92%	34.98
7	62.72	0.00%	62.72
		Average	36.14
		Median	24.78

Note:

The comparable company multiples are size-adjusted with reference to "Adjusting Guideline Multiples for Size" by Mattson, Shannon and Drysdale published in September/October 2001 Valuation Strategies, with the following formula adopted in deriving the size adjustment:

Adjusted Multiple = 1/(1/Original Multiple + θ)

Where:

θ is the size differential with reference to "Valuation Handbook Guide to Cost of Capital" published by Duff & Phelps.

Market Capitalization *(USD in millions)*	2,392–10,711	569–2,391	2.5–568
Size Premium	1.02%	1.75%	3.67%

The calculation details of the OPCO using the P/E multiple were illustrated as follows:

		RMB
FY2020 Net Profit After Tax (audited)	**(E)**	7,693,705
Multiplied by: Median P/E Multiple	**(F)**	24.78
Market Value before Applying Marketability Discount and Control Premium	**(G)=E*F**	190,663,911
% of interest under Valuation	**(H)**	51.0%
Adjusted for Marketability Discount	**(I)**	(1-20.6%)
Adjusted for Control Premium	**(J)**	(1+24.5%)
Market Value Obtained from P/E Multiple *(RMB)*	**(K)=G*H*I*J**	96,123,268
Market Value on a Controlling Basis (Rounded) ***(RMB)***		96,000,000

The Directors have also reviewed and discussed with the Valuer the assumption used for the Valuation and noted that the Valuer have adopted certain specific assumptions in the Valuation and the major ones are as follows:

(1) All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the OPCO operates or intends to operate would be officially obtained and renewable upon expiry.

(2) There will be sufficient supply of technical staff in the industry in which the OPCO operates, and the OPCO will retain competent management, key personnel and technical staff to support its ongoing operations and developments.

(3) There will be no major change in the current taxation laws in the localities in which the OPCO operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.

(4) There will be no major change in the political, legal, economic or financial conditions in the localities in which the OPCO operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the OPCO.

(5) Interest rates and exchange rates in the localities for the operation of the OPCO will not differ materially from those presently prevailing.

DELAY IN DESPATCH OF CIRCULAR

As additional time is required for the Company to finalise certain information for inclusion in the circular, the despatch of the circular, which containing, among other things, (i) further information on the Acquisition; (ii) details of the Specific Mandate; (iii) an accountants' report on the Target Group; (iv) pro forma financial information on the Enlarged Group; and (v) a notice of the EGM, is expected to be postponed to a date on or before 30 June 2021.

By Order of the Board
Vestate Group Holdings Limited
ZHU Xiaojun
Chairman

Hong Kong, 28 May 2021

As at the date of this announcement, the Board comprises:

Executive Directors:
Mr. ZHU Xiaojun
Ms. CAI Jiaying
Mr. YIN Wansun

Independent non-executive Directors:
Mr. YU Lei
Mr. CHAI Guoqiang