



**FIRST CAPITAL INTERNATIONAL  
FINANCE LIMITED**

Unit 4513, 45th Floor  
The Center  
99 Queen's Road Central Hong Kong

4 February 2022

*To: The Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER  
BY HOORAY SECURITIES LIMITED  
ON BEHALF OF THE JOINT OFFERORS  
TO ACQUIRE ALL THE ISSUED SHARES OF  
HNA TECHNOLOGY INVESTMENTS HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY THE JOINT OFFERORS  
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Offer. Details of the Offer are set out in this Composite Document dated 4 February 2022 jointly issued by the Company and the Joint Offerors to the Independent Shareholders, of which this letter (the "**Letter**") forms part. Terms used herein shall have the same meanings as defined in this Composite Document unless the context requires otherwise.

Reference is made to the Joint Announcement in relation to, among other things, the SPA and the Offer.

On 12 January 2022 (before trading hours), the Joint Offerors and the Vendor entered into the SPA, pursuant to which the Vendor agreed to sell, and the Joint Offerors agreed to acquire the Sale Shares and the Shareholder's Loan at nominal consideration of HK\$1.00 (taking into account the PF Loan and the ZZ Loans). Completion took place on 12 January 2022.

Completion took place on 12 January 2022. Immediately after Completion and as at the Latest Practicable Date, the Target Company was held by Mars Development as to 60% and Megacore Development as to 40% and, as a result, the Joint Offerors collectively are the controlling Shareholders, indirectly holding in aggregate approximately 74.75% of the issued Shares. In accordance with Rule 26.1 of the Takeovers Code, upon Completion, the Joint Offerors are required to make a mandatory unconditional cash offer for the Offer Shares, being all the issued Shares other than those Shares already owned by the Joint Offerors and the Joint Offerors' Concert Parties.

#### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Guo Dan, Dr. Lin Tat Pang and Ms. O Wai, has been established to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer pursuant to Rule 2.1 of the Takeovers Code. Mr. Shum Ngok Wa, a non-executive Director, is a vice-president and a director of Premium Financial, which is presumed to be acting in concert with the Joint Offerors under class (9) of the definition of "acting in concert" under the Takeovers Code and is considered to have material interests in the Offer. Therefore, Mr. Shum Ngok Wa shall not be a member of the Independent Board Committee.

First Capital International Finance Limited ("**First Capital**") has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

#### **INDEPENDENCE OF FIRST CAPITAL**

Save for this appointment as the Independent Financial Adviser to provide our independent advice on the Offer, as at the Latest Practicable Date, First Capital did not have any other relationship or connection, financial or otherwise, with or any interests in the Company, its financial or other professional advisers, the Vendor, the Target Company, the Joint Offerors or the Joint Offerors' Concert Parties that could reasonably be regarded as relevant to our independence. In the last two years, save for the appointment as the Independent Financial Adviser in connection with the Offer, there was no engagement between the Group, the Joint Offerors or the Joint Offerors' Concert Parties and First Capital. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we have received or will receive any fees or benefits from the Group, the Joint Offerors or the Joint Offerors' Concert Parties. Accordingly, we are considered eligible to act as the Independent Financial Adviser and to give independent advice on the Offer under Rule 2.1 of the Takeovers Code.

## **BASIS OF OUR ADVICE**

In formulating our advice, we have relied on the truth, accuracy and completeness of the statements, information, facts, representations and opinions contained or referred to in this Composite Document, provided and made to us by the management of the Company (collectively, the “**Management**”), the Company, the Joint Offerors, the directors of the Joint Offerors and their respective professional advisers (as the case may be). We have reviewed, amongst other things, (i) the Joint Announcement; (ii) the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”); (iii) the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”); and other information, representations and opinions as contained or referred to in this Composite Document and those provided by the Management, the Company, the Joint Offerors, the directors of the Joint Offerors and their respective professional advisers (as the case may be).

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for us to formulate our advice as set out in this Letter. We have assumed that all statements, information, facts, representations and opinions contained or referred to in this Composite Document and/or those provided to us by the Management, the Company, the Joint Offerors, the directors of the Joint Offerors and their respective professional advisers (as the case may be), for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so in all material respect up to the Closing Date of the Offer. Shareholders will be notified of any material changes, if any, to such statements, information, facts, representations and/or opinions as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all the statements, information, facts, representations and opinions contained or referred to in this Composite Document and/or provided to us have been reasonably made after due enquiries and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any such statement contained in this Composite Document misleading. We have no reason to suspect that any material information or facts have been omitted or withheld nor to doubt the truth, accuracy or completeness of the information and facts contained in this Composite Document or provided to us, or the reasonableness of the opinions expressed by the Management, the Company, the Joint Offerors, the directors of the Joint Offerors and their respective professional advisers (as the case may be), which have been provided to us. We have also sought and received confirmation from the Directors that no material information and facts have been omitted from the information and facts provided to us and the representations made and opinions expressed by them are not misleading or deceptive in any material respect.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this Letter.

We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the businesses, affairs, operations, financial position or future prospects of the Group, the Joint Offerors or their respective subsidiaries or associates (if applicable).

We have also not considered the tax and regulatory implications on the Group or the Independent Shareholders as a result of the Offer since these depend on their individual circumstances. In particular, the Independent Shareholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers. We will not accept responsibility for any tax effect on or liability of any person resulting from his or her acceptance or non-acceptance of the Offer.

Our advice is necessarily based on the prevailing financial, economic, market and other conditions and the information made available to us as at the Latest Practicable Date. Where information in this Letter has been extracted from published or otherwise publicly available sources, the sole responsibility of ours is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not used out of context.

This Letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the matters relating to the Offer. Except for its inclusion in this Composite Document, this Letter is not to be quoted or referred to, in whole or in part, nor shall this Letter be used for any other purposes, without our prior written consent.

## **PRINCIPAL TERMS OF THE OFFER**

### **1. The Offer**

Hooray Securities, on behalf of the Joint Offerors and in compliance with the Takeovers Code, is making the Offer to acquire all the Offer Shares on the terms as set out in this Composite Document in accordance with the Takeovers Code on the following basis:

For each Offer Shares..... HK\$0.84 in cash

The Offer Price of HK\$0.84 per Offer Share is approximately equal to but not lower than the effective acquisition price per effective acquisition Share paid by the Joint Offerors under the Transaction. The effective acquisition price of each Share under the Transaction is derived based on the following:

- (i) taking into account the aggregated consideration paid by and the Guarantees provided by the Joint Offerors Obligor for the purpose of the Transaction, which consists of (1) the ZZ Loan 1 of HK\$5,000,000; (2) the ZZ Loan 2 of HK\$20,000,000; (3) the aggregated financing for the Second Mandatory Prepayment and the Subsequent Mandatory Prepayment(s) in the amount of HK\$67,000,000; (4) the Guarantees to be assumed by the Joint Offerors Obligor for the principal amount of HK\$108,000,000 under the PF Loan (after the Second Mandatory Prepayment and Subsequent Mandatory Prepayment(s)); and (5) the consideration for the Sale Shares and the assignment of the Shareholder's Loan of HK\$1.00 under the SPA, the effective acquisition price of the Target Company is HK\$200,000,001;
- (ii) save and except for the above, the Joint Offerors confirm that no other payment (including but not limited to any unpaid interest or penalty associated with the PF Loan accrued before the date of Completion) was requested or paid for the purpose of the Transaction;
- (iii) save for the 238,889,669 Shares, representing approximately 74.75% of the issued Shares as at the date of Completion and up to the Latest Practicable Date, and the bank balance in cash in the amount of approximately HK\$1.46 million based on the unaudited management account of the Target Company as at 31 December 2021, the Target Company does not hold any other significant assets; and
- (iv) pursuant to Note 8 to Rule 26.1 and Practice Note 19 to the Takeovers Code, a chain principle offer was triggered and based on the Pacpo Formula, the effective acquisition price of each Share under the Transaction (i.e. dividing HK\$200,000,001 by 238,889,669 Shares) is approximately HK\$0.8372.

In this regard, despite the transactions described in the section headed "Principal terms of the Offer" in the "Letter from Hooray Securities" contained in this Composite Document represent understandings, arrangements or special deals between the Vendor and parties acting in concert with it on the one hand, and the Joint Offerors and the Joint Offerors' Concert Parties on the other hand, such favorable conditions are effectively extended to all Shareholders in full amount under the Offer by way of adopting all the favorable conditions into the effective acquisition price of the Transaction.

Save and except of the above, there is no other understanding, arrangement or special deal between the Vendor and parties acting in concert with it on the one hand, and the Joint Offerors and the Joint Offerors' Concert Parties on the other hand, that represents a favourable condition

that is not extended to all Shareholders, which would constitute a special deal under Rule 25 of the Takeovers Code and require the consent of the Executive.

The Offer is unconditional in all aspects and is not conditional upon acceptances being received in respect of a minimum number of Shares or other conditions.

The Joint Offerors will acquire the Offer Shares tendered for acceptance by the Shareholders in accordance with the Ownership Percentage and the terms of the Offer. Each of the Joint Offerors will pay for the Offer Shares tendered under the Offer according to the Ownership Percentage.

## **2. Total value of the Offer**

As at the Latest Practicable Date, there were 319,564,892 Shares in issue and there were no outstanding options, warrants, derivatives or convertible/exchangeable securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

On the basis of the Offer Price of HK\$0.84 per Offer Share, all the issued Shares are valued at approximately HK\$268.43 million.

Excluding the 238,889,669 Shares, representing approximately 74.75% of the issued Shares, already owned by the Joint Offerors and assuming there is no change in the share capital of the Company from the Latest Practicable to the Closing Date, the Offer is extended to 80,675,223 Offer Shares, representing approximately 25.25% of the issued Shares, and the value of the Offer is approximately HK\$67,767,187.

## **3. Confirmation of financial resources available to the Joint Offerors**

Based on the Offer Price of HK\$0.84 per Offer Share and 80,675,223 Offer Shares, the total maximum consideration of the Offer is approximately HK\$67,767,187 (assuming the Offer is accepted in full and there is no change in the share capital of the Company from the Latest Practicable Date to the Closing Date).

Hooray Capital, the financial adviser to the Joint Offerors, is satisfied that sufficient financial resources are, and will continue to be, available to the Joint Offerors to satisfy the total maximum consideration payable upon full acceptance of the Offer. For details of the arrangements in relation to the financial resources, please refer to the section headed "Confirmation of financial resources available to the Joint Offerors" in the "Letter from Hooray Securities" contained in this Composite Document.

## PRINCIPAL FACTORS AND REASONS TAKEN INTO CONSIDERATION ON THE OFFER

In assessing the Offer and in giving our advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### 1. Background of the Group

The Company was incorporated in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 13 April 2000. Its issued Shares were listed on GEM of the Stock Exchange on 10 November 2003 and have been listed on the Main Board of the Stock Exchange by way of transfer of its listing since 29 September 2015. The Group is principally engaged in providing development, sales and distribution of smart card products, software and hardware and related services.

### 2. Financial information of the Group

Set out below is the summary of financial information of the Group for (i) the six months ended 30 June 2021 (“HY2021”) and 2020 (“HY2020”) as extracted from the 2021 Interim Report and (ii) the financial years ended 31 December 2020 (“FY2020”) and 2019 (“FY2019”) as extracted from the 2020 Annual Report:

	For the six months ended		For the year ended	
	30 June 2021	30 June 2020	31 December 2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	36,250	60,771	112,747	165,727
(Loss)/profit before taxation (adjusted for discontinued operation)	(10,280)	(648)	(19,903)	(7,034)
(Loss)/profit for the period attributable to the equity of the Shareholders	(10,889)	(972)	(20,223)	(8,259)

*HY2021 as compared to HY2020*

The Group recorded total revenue for HY2021 in the amount of approximately HK\$36.3 million, representing a year-on-year (“YOY”) decrease of approximately 40.3% as compared to that of HY2020 of approximately HK\$60.8 million. The decrease in revenue was mainly attributable to the drop in sales caused by the impact of COVID-19 pandemic globally since the beginning of 2020 with no signs of significant recovery in 2021.

The Group recorded a loss attributable to Shareholders for HY2021 in the amount of approximately HK\$10.9 million, representing a deterioration from HY2020, which recorded a loss of approximately HK\$1.0 million. The deterioration was mainly resulted from the outbreak of COVID-19 since early 2020 with no signs of significant recovery in 2021, causing unfavorable impacts to the Group’s operations and financial results during the HY2021.

*FY2020 as compared to FY2019*

The Group’s total revenue for FY2020 amounted to approximately HK\$112.8 million which represented a decrease of approximately HK\$52.9 million or YOY decrease of approximately 31.9% from approximately HK\$165.7 million for FY2019. The decrease was attributable to the drop in sales which was mainly caused by the serious COVID-19 pandemic globally. In addition, the China-United States of America (“U.S.”) trade conflict had also created a turbulent business environment for the Group. The U.S. government has imposed trade restrictions on “Made in Hong Kong” products, which has a greater impact on the Group’s sales in the U.S.

The Group recorded a loss for the year attributable to Shareholders for FY2020 in the amount of approximately HK\$20.2 million, representing a deterioration from FY2019, which recorded a loss of for the year attributable to Shareholders of approximately HK\$8.3 million. The increase in loss was mainly due to lower revenue, higher impairment loss on intangible assets and increase in writedown of inventories in FY2020.

The Company did not declare any dividend for HY2021, FY2020 and FY2019.

We noted that the Group reported net losses for HY2021, FY2020 and FY2019 which suggests that the Group is operating in a challenging business environment.



### 3. Financial position of the Group

Set out below is the summary of the Group's financial positions as at 30 June 2021 and 31 December 2020 and 2019, as extracted from and determined based on the 2021 Interim Report and 2020 Annual Report respectively:

	As at 30 June 2021 HK'000 (unaudited)	As at 31 December		Half-year changes 2020/21 %	YOY changes 2019/20 %
		2020 HK'000 (audited)	2019 HK'000 (audited)		
Non-current assets	29,652	34,356	42,867	(13.69)	(19.85)
Current assets	83,669	87,102	102,999	(3.94)	(15.43)
Total assets	113,321	121,458	145,866	(6.70)	(16.73)
Non-current liabilities	4,096	5,953	3,196	(31.19)	86.26
Current liabilities	17,252	14,187	23,887	21.60	(40.61)
Total liabilities	21,348	20,140	27,083	6.00	(25.64)
Net current assets	66,417	72,915	79,112	(8.91)	(7.83)
Net asset value	91,973	101,318	118,783	(9.22)	(14.70)

#### *As at 30 June 2021 (with comparative figures as at 31 December 2020)*

As at 30 June 2021, the Group had non-current assets of approximately HK\$29.7 million (2020: HK\$34.4 million) which comprised mainly (i) property, plant and equipment of approximately HK\$11.9 million (2020: HK\$15.0 million); (ii) intangible assets of approximately HK\$16.4 million (2020: HK\$17.4 million); and (iii) deferred tax assets of approximately HK\$1.4 million (2020: HK\$1.9 million). The decrease in non-current assets was mainly due to the decrease in property, plant and equipment due to the depreciation of property, plant and equipment.

As at 30 June 2021, the Group had current assets of approximately HK\$83.7 million (2020: HK\$87.1 million) which comprised mainly (i) inventories of approximately HK\$20.4 million (2020: HK\$19.6 million); (ii) trade and other receivables of approximately HK\$10.4 million (2020: HK\$12.2 million); (iii) other financial assets of approximately HK\$0.25 million (2020: HK\$0.33 million); (iv) current tax receivable of approximately HK\$0.6 million (2020: HK\$0.6 million); and (v) cash and cash equivalents of approximately HK\$52.0 million (2020: HK\$54.4 million). The slight decrease in current assets was mainly attributable to the decrease in trade and other receivables, and cash and cash equivalents during HY2021, and was offset by the increases in inventories.

As at 30 June 2021, the Group had non-current liabilities and current liabilities amounted to approximately HK\$4.1 million and HK\$17.3 million respectively (2020: HK\$6.0 million and HK\$14.2 million respectively), comprising mainly trade and other

payables of approximately HK\$13.2 million (2020: HK\$10.2 million), defined benefit obligations of approximately HK\$0.5 million (2020: HK\$0.3 million) and lease liabilities of approximately HK\$7.7 million (2020: HK\$9.7 million).

The net current asset position and net asset value of the Group as at 30 June 2021 was approximately HK\$66.4 million and HK\$92.0 million respectively, which were lower than that as at 31 December 2020 of approximately HK\$72.9 million and HK\$101.3 million respectively.

*As at 31 December 2020 (with comparative figures as at 31 December 2019)*

As at 31 December 2020, the Group had non-current assets of approximately HK\$34.4 million (2019: HK\$42.9 million) which comprised mainly (i) property, plant and equipment of approximately HK\$15.0 million (2019: HK\$10.4 million); (ii) intangible assets of approximately HK\$17.5 million (2019: HK\$30.5 million); and (iii) deferred tax assets of approximately HK\$1.9 million (2019: HK\$1.9 million). The decrease in non-current assets was mainly from the decrease in intangible assets. The intangible assets decreased by 42.6%, from HK\$30.5 million at 31 December 2019 to HK\$17.5 million at 31 December 2020, mainly due to amortisation of HK\$11.2 million and impairment loss recognised of HK\$5.7 million, offset by additions of HK\$3.9 million during the FY2020.

As at 31 December 2020, the Group had current assets of approximately HK\$87.1 million (2019: HK\$103.0 million) which comprised mainly (i) inventories of approximately HK\$19.6 million (2019: HK\$30.8 million); (ii) trade and other receivables of approximately HK\$12.2 million (2019: HK\$24.8 million); (iii) other financial assets of approximately HK\$0.3 million (2019: HK\$0.3 million); (iv) current tax recoverable of approximately HK\$0.6 million (2019: HK\$1.7 million); and (v) cash and cash equivalents of approximately HK\$54.4 million (2019: HK\$45.4 million). The decrease in current assets was mainly attributable to the decrease in inventories, trade and other receivables and current tax recoverable, and offset by the increase in cash and cash equivalents.

As at 31 December 2020, the Group had non-current liabilities and current liabilities amounted to approximately HK\$6.0 million and HK\$14.2 million respectively (2019: HK\$3.2 million and HK\$23.9 million respectively), comprising mainly trade and other payables of approximately HK\$10.2 million (2019: HK\$20.7 million), defined benefit obligations of approximately HK\$0.3 million (2019: HK\$2.0 million) and lease liabilities of approximately HK\$9.7 million (2019: HK\$4.2 million).

The net current asset position and net asset value of the Group as at 31 December 2020 was approximately HK\$72.9 million and HK\$101.3 million respectively, which were lower than that as at 31 December 2019 of approximately HK\$79.1 million and HK\$118.8 million respectively.

We noted that the consolidated net asset value of the Group has been on a declining trend in our review period from the FY2019 to the HY2021 as noted from the table above.

More details of the financial information of the Group are set out in Appendix II of this Composite Document.

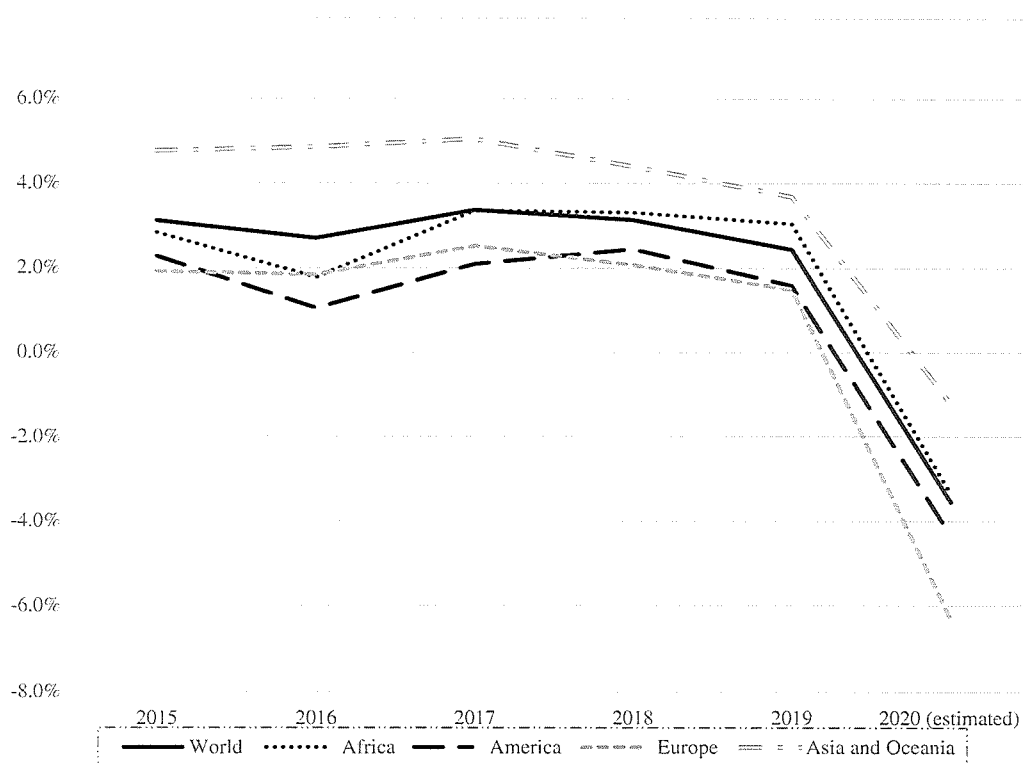
#### 4. Industry outlook and prospects of the Group

The Group's results of operations, financial condition and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. Having discussed with the Management, we set out below the relevant factors that could result in the Group's results of operations, financial condition and growth prospects differing materially from expected or historical results:

##### (a) Impact of the COVID-19 pandemic

The COVID-19 pandemic has led to significant declines in real gross domestic product ("GDP") in advanced economies in 2020, significantly affecting the global economy.

*Annual average growth rates of real GDP by regions 2015 to 2020*



Source: United Nations Conference of Trade and Development statistics

Note: Annual growth rates are based on GDP at constant 2015 U.S. dollars.

As noted in the chart above, the annual average growth rate of world real GDP decreased by 3.56% in 2020 as estimated. As the global epidemic situation remains severe, governments and corporations continue to shift budget to epidemic prevention and therefore, many projects especially the national-base government projects are still being put on hold. The pandemic has severely affected various sectors such as education, government, transportation etc. Manufacturing units are hampered due to shutdowns and the unavailability of labour or raw materials. This has resulted in a huge gap between supply and demand. Further, there is a restriction on foreign trades due to the lockdown of international borders, non-operational distribution channels, and various government laws to take precautionary measures for public health and safety.

Set out below is the revenue by geographical locations of customers of the Group:

	Revenue from external customers					
	Year ended	Year ended	Change in %	Six months	Six months	Change in %
	31 December	31 December		ended	ended	
	2020	2019	30 June 2021	30 June 2020		
HK\$'000	HK\$'000	HK\$'000	HK\$'000			
Mainland China, Hong Kong,						
Macau and Taiwan	18,633	19,916	-6.4%	6,975	9,355	-25.4%
U.S.	18,673	35,876	-48.0%	3,549	11,766	-69.8%
Japan	11,833	20,266	-41.6%	Not disclosed	Not disclosed	NA
Turkey	9,177	12,654	-27.5%	4,757	3,837	24.0%
Republic of Fiji	2,443	7,755	-68.5%	Not disclosed	Not disclosed	NA
Republic of Philippines	1,804	3,646	-50.5%	Not disclosed	Not disclosed	NA
The Russian Federation	1,667	5,749	-71.0%	2,101	115	1727.0%
Germany	Not disclosed	Not disclosed	NA	2,321	2,881	-19.4%
Italy	Not disclosed	Not disclosed	NA	1,429	3,394	-57.9%
Other countries	48,517	59,865	-19.0%	15,118	29,423	-48.6%
<b>Total</b>	<b>112,747</b>	<b>165,727</b>	<b>-32.0%</b>	<b>36,250</b>	<b>60,771</b>	<b>-40.4%</b>

Source: The Company's 2020 Annual Report and 2021 Interim Report

Note: Where the figures are not disclosed in the 2020 Annual Report and 2021 Interim Report, the changes in percentage are not applicable, which are shown as "NA" in the table above.

It is noted that the Group's total revenue for FY2020 amounted to approximately HK\$112.8 million which represented a decrease of approximately HK\$52.9 million or YOY decrease of approximately 31.9% from approximately HK\$165.7 million for FY2019. The decrease was attributable to the drop in sales which was mainly caused by the serious COVID-19 pandemic globally. For HY2021, the Group recorded total revenue in the amount of approximately HK\$36.3 million, representing a decrease of approximately 40.3% as compared to that of HY2020 of approximately HK\$60.8 million. The decrease in revenue

was mainly attributable to the drop in sales caused by the impact of COVID-19 pandemic globally since the beginning 2020 with no signs of significant recovery in 2021.

*(b) Worldwide shortage of integrated circuit (“IC”)*

Research by an analyst from Goldman Sachs quoted by Yahoo Finance news dated 17 October 2021, and an analyst from the Guardian News and CNBC news dated 17 October 2021, for the years 2020 to 2021, it has been an ongoing crisis in which the demand for ICs has been greater than the supply, affecting a wide range of industries and has led to major price increases, shortages and queues amongst consumers for automobiles, graphics cards, video game consoles, computers, and other products that require ICs. Equipment manufacturers in industries that rely heavily on ICs, like consumer electronics, have had to delay their production lines.

The Group’s financial technology and smart living segment mainly includes smart card and related products business. Worldwide shortage of IC has seriously affected the Group’s devices shipment schedule.

*(c) Trade war*

The Group engages in international trade with its target market in the U.S. The trade war between China and the U.S. escalated through 2019 and has no sign of significant improvement. Research by an analyst from Goldman Sachs quoted by CNBC news dated 13 May 2019 suggested that average American tariffs on Chinese goods increased from 3.1% in 2017 to 24.3% by August 2019. Furthermore, tariffs were raised from 25% to 30% on the existing U.S. Dollars (“US\$”) 250 billion worth of Chinese goods beginning on 1 October 2019, and from 10% to 15% on the remaining US\$300 billion worth of goods beginning on 15 December 2019.

The Group does not own any production facilities and it subcontracts substantially all of the production activities to external manufacturers in China. During the year ended 31 December 2020, the Group engaged three manufacturers for manufacturing smart cards, and one manufacturer for manufacturing smart card reader. As such, the products of the Group are labelled as made in China and accordingly, subject to U.S. tariffs for the sales to customers in the U.S.

It is noted from the table above setting out revenue by geographical locations of customers that the Group’s sales to its principal market in the U.S. dropped significantly from FY2019 to FY2020 and this situation did not improve in HY2021. Due to the adverse impact of the trade war especially to the customers in the U.S., the Group shifted its customer base to other countries to avoid the high tariffs importing to the U.S. The Group’s sales to the U.S. in 2019 represented approximately 21.6% of the overall annual sales of the Group in 2019 which dropped to approximately 16.6% in 2020. The sales to the U.S. as a percentage of the overall sales further declined from approximately 19.4% in HY2020 to 9.8% in HY2021.

*(d) Business risk*

According to the Group's 2020 Annual Report, the Group operates in a market which is characterized by rapid changes in technology, industry standards, customer preferences and frequent introductions and enhancements of products and services. Accordingly, the performance of the Group depends on overall market demand on smart card technology and related products and its ability to improve the functions and reliability of its products and services and adapt to new industry standards and customer preferences. In the event of the Group failing to adapt successfully to such changes, the performance and growth prospects of the Group may be adversely affected. Further, the introduction of new products and services in response to rapid changes in technology, industry standards and customer preferences require relative high level of capital expenditure. During the year ended 31 December 2020, the Group recorded additions of HK\$3.9 million (2019: HK\$0.7 million) on development costs of new products and services. The increase was mainly due to the development of the bus validator product ACR350, an upgrade of the existing product ACR330. Although the relative higher level of capital expenditure may improve the technical aspect of its products or services, it may also have an adverse financial implication on the Group if the new products and services do not achieve market acceptance or there is substantial delay in the process. As such, the performance and growth prospects of the Group may be adversely affected.

As discussed with the Company, we understand that it anticipates the challenging business environment is likely to remain until the China-U.S. trade war and the COVID-19 pandemic situation improves as such, the prospects of the industry would cast uncertainty on the prospects of the Group. The China-U.S. trade war and the COVID-19 pandemic have disrupted the global supply chain for ICs. With the unfavorable environment, the Group remains focused on its core strengths. In order to ensure adequate supply of ICs, the Group has allocated extra budget for raw material preparation and explored alternative for critical components substitution. The Group will continue to closely monitor the market situations and make necessary adjustments to its strategies and operations. The Group has changed its marketing strategies by focusing on online marketing to increase sales channels and strengthening the relationship with local customers with regular visits and products sponsorship. It is the intention of the Group that it will expand market shares and strive to provide better products and services, such as enhancement of features on existing products.

**5. Information of the Joint Offerors**

*Mars Development*

Mars Development is a limited liability company incorporated in the BVI and is an investment holding company. It is an investment vehicle of Mr. Mai incorporated for the purpose of acquiring interests in the Company through the SPA and the Offer, and has not engaged in any business activities since its incorporation on 2 June 2021. Mars Development is wholly owned by Mars Enterprise, a limited liability company incorporated in the BVI, principal business of which is investment holding. As at the Latest Practicable

Date, save and except for its investment in Mars Development, Mars Enterprise has no other material business or investments. Mr. Mai is interested in 100% of the share capital of Mars Enterprise.

Mr. Mai, aged 54, is the sole director and the sole ultimate beneficial owner of Mars Development. He is the vice chairman of 廣東鴻發投資集團有限公司 (Guangdong Hongfa Investment Group Co., Limited\*), a limited liability company based in Guangdong province, the PRC with a registered paid in capital of RMB161,600,000. It is focusing in, inter alia, properties development, financial services, healthcare, education and public area construction in the PRC (www.hongfagroup.net). 廣東鴻發投資集團有限公司 (Guangdong Hongfa Investment Group Co., Limited\*) is beneficially wholly owned as to 20% by Mr. Mai and 80% by members of his family. In addition, Mr. Mai has a 90% interests in 廣州市皇稼農業科技有限公司 (Guangzhou Huangjia Agricultural Science Company Limited\*) (“**Guangzhou Huangjia**”) which is focusing in agriculture science research and development, and balance of the ownership is owned by an independent third party.

#### *Megacore Development*

Megacore Development is a limited liability company incorporated in the BVI and is an investment holding company. It is an indirect wholly-owned subsidiary of Zhong Zhao. It is an investment vehicle of Mr. Zhang incorporated for the purpose of acquiring interests in the Company through the SPA and the Offer, and has not engaged in any business activities since its incorporation on 22 January 2021. It is wholly owned by Megacore International, which is in turn wholly owned by Zhong Zhao. Mr. Zhang is interested in 100% of the issued share capital of Zhong Zhao. The principal business of each of Megacore International and Zhong Zhao is investment holding and they have no other material assets or investments save and except for described in the Composite Document.

Mr. Zhang, aged 50, is the sole director and sole ultimate beneficial owner of Megacore Development. Mr. Zhang holds 90% interest in 廣東中兆實業集團有限公司 (Guangdong Zhong Zhao Industrial Group Company Limited\*), a limited liability company based in Guangdong Province, the PRC with a registered paid in capital of RMB50,000,000. It is focusing in, inter alia, property investments and investments in industrial businesses. In addition, Mr. Zhang has a 15% beneficial interests in 廣州宇泰行數據科技有限公司 (Guangzhou Yutaixing Data Technology Co., Ltd.\*) (“**Guangzhou Yutaixing**”) which is focusing in corporate data management business in the PRC, and balance of ownership is owned by independent third party.

Each of Mr. Mai, Mr. Zhang, Mars Enterprise, Megacore International and Zhong Zhao is a party acting in concert with the Joint Offerors.

Following Completion, the Joint Offerors are in aggregate indirectly interested in 238,889,669 Shares (through their respective interest held in the Target Company), representing approximately 74.75% of the total issued Shares as at the Latest Practicable Date. Save as disclosed in the Composite Document, the Joint Offerors and the Joint Offerors’ Concert Parties did not hold any Shares or any other securities of the Company as at the Latest Practicable Date. Save for (i) the Transaction between the Joint Offerors and

the Vendor; and (ii) the provision of the ZZ Loan 1 by Zhong Zhao to the Target Company prior to the Transaction, there is or was no other present or past relationship (formal or informal, business or otherwise) between each of Mr. Mai and Mr. Zhang and the Company or its connected persons.

#### **6. Future intention of the Joint offerors in relation to the Group**

Following the close of the Offer, it is the intention of the Joint Offerors that the Group will continue with its existing principal activities and maintain the employment of the existing employees of the Group including operational staff (except for the proposed changes to the members of the Board as set out in the section headed “Proposed Change to the Board Composition” in the “Letter from Hooray Securities” contained in this Composite Document).

Leveraging on the experience of Mr. Mai and Mr. Zhang in business development and management and their respective investments in technology related companies of Guangzhou Huangjia and Guangzhou Yutaixing (both of which have no present or past relationship with any members of the Group, other than Mr. Mai and Mr. Zhang (as the case may be) being the common beneficial shareholders), the Joint Offerors will continue to explore possible business opportunities appropriate to the Group’s business and operations with a view to enhance the value of the Group. It is also the business intention of the Joint Offerors to explore the feasibility of investing into technology based companies and to generate potential synergies among them. Mr. Mai is a major shareholder of Guangzhou Huangjia, and he is responsible for the overall strategic development and major business decision making of the company. Mr. Zhang is a passive investor in Guangzhou Yutaixing, but provides similar advice in the areas of overall strategic development and major business decision making to Guangzhou Yutaixing as a shareholder. However, neither Mr. Mai and Mr. Zhang are involved in the daily management of the businesses of Guangzhou Huangjia and Guangzhou Yutaixing, respectively. It is their visions to explore any potential synergy, such as cross selling opportunities and bundled solutions among any or all of the two investments and the Company upon the close of the Offer. As at the Latest Practicable Date, the Joint Offerors have not identified any particular target company(ies) and yet to have formulated any detailed plan in this regard. Upon the close of the Offer, the Joint Offerors will conduct a detailed review of the operations of the Group and formulate business strategies for the Group’s long term development.

As at the Latest Practicable Date, no investment or business opportunities has been identified nor have the Joint Offerors entered into any agreement, arrangements, understandings or negotiation in relation to (a) the injection of any assets or business into the Group; or (b) the disposal of any assets or business of the Group, other than those conducted by the Company in its ordinary course of business and/or those which are immaterial in nature.



Save for the anticipated changes to the members of the Board as described in section headed “Proposed Change to the Board Composition” in the “Letter from Hooray Securities” contained in this Composite Document, the Joint Offerors have no intention to (i) discontinue the employment of any employees of the Group or change the composition of the board of the directors of the Group’s subsidiaries; (ii) redeploy the fixed assets of the Group other than those in its ordinary and usual course of business; or (iii) introduce any major changes in the existing operations and business of the Group, following the close of the Offer.

## **7. Proposed changes to the Board Composition**

The Board is currently made up of five executive Directors, one non-executive Director and three independent non-executive Directors. It is proposed that four out of the five executive Directors, namely Mr. Jiang Hao, Mr. Peng Zhi, Mr. Xu Jie and Mr. Wang Jing, and two out of the three independent non-executive Directors, namely Mr. Guo Dan and Ms. O Wai, will resign as Directors with effect from a date which is no earlier than such date as permitted under Rule 7 of the Takeovers Code (i.e. after the close of the Offer).

Mr. Wong Chi Ho, who has been an executive Director since 24 March 2015, will remain as an executive Director. Mr. Wong Chi Ho is also a director and the legal representative of several subsidiaries of the Group. Mr. Shum Ngok Wa will remain as a non-executive Director. He has been a non-executive Director since 11 August 2021. Mr. Shum Ngok Wa is also a director and vice president of Premium Financial. Dr. Lin Tat Pang, who has been an independent non-executive Director since 22 December 2017, will remain as an independent non-executive Director.

The Joint Offerors propose to nominate Mr. Mai, Mr. Zhang and Ms. Xu Tingting as executive Directors, Ms. Mai Qiqi as non-executive Director, and Mr. Lai Chi Leung and Mr. Zhang Dingfang as independent non-executive Directors. The appointment of the new executive Directors, non-executive Director and independent non-executive Directors will take effect after the posting of this Composite Document. Meanwhile, the Joint Offerors are considering other potential candidates for nomination as Directors. Any changes to the composition of the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement(s), including but not limited to the details required by Rule 13.51(2) of the Listing Rules, will be made upon any resignation and appointment of the Directors becoming effective. The biographies of the new Directors to be nominated are set out in the section headed “Proposed Change to the Board Composition” in the “Letter from Hooray Securities” contained in this Composite Document.

We note that although Mr. Mai and Mr. Zhang have investments in companies involved in technology related businesses that Mr. Mai is responsible for the business direction and vision of Guangzhou Huangjia, and Mr. Zhang is a passive investor in Guangzhou Yutaixing and provides similar advice in the areas of overall strategic development and major business decision making to Guangzhou Yutaixing as a shareholder, there is no direct similarity or overlapping of business

between Guangzhou Huangjia and Guangzhou Yutaixing and that of the Group. Based on the background information of Mr. Mai, Mr. Zhang, Ms. Xu Tingting, Ms. Mai Qiqi, Mr. Lai Chi Leung and Mr. Zhang Dingfang, it appears that they do not have immediate experience in similar business of the Group and they have yet to conduct a detailed review of the operations of the Group and formulate business strategies for the Group's long term development.

## **8. Intention of the Joint Offerors to maintain the listing status of the Company**

The Joint Offerors intend the Company to remain listed on the Stock Exchange. The directors of the Joint Offerors and the new directors to be appointed to the Board of the Company will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

The Stock Exchange has indicated that if, upon the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that (a) a false market exists or may exist in the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

## **9. Analysis of the Offer Price**

### *(a) Comparisons of Offer Price*

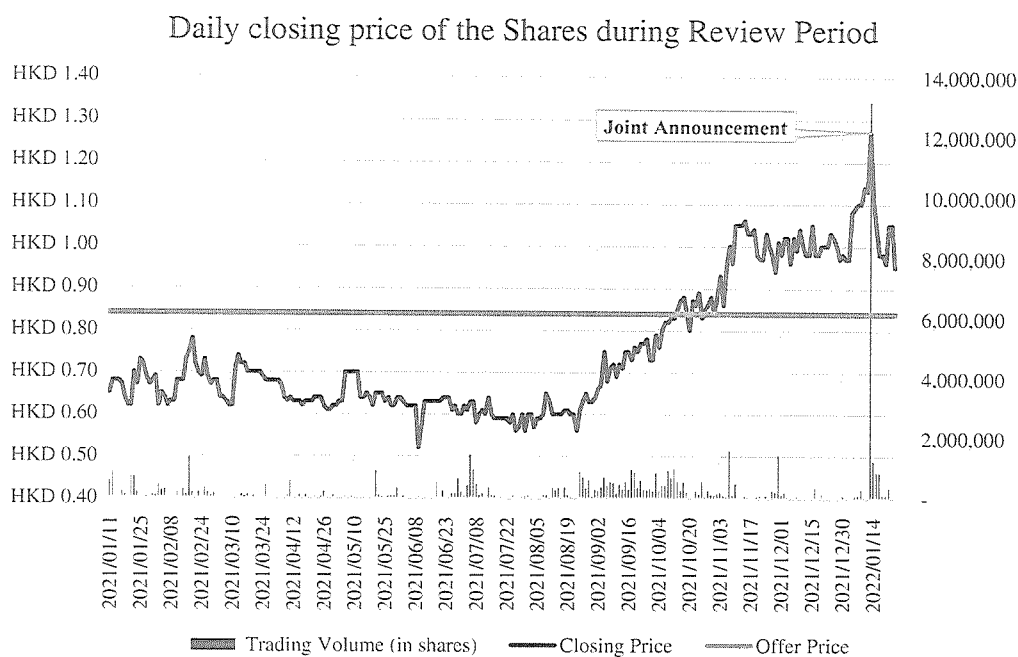
The Offer Price of HK\$0.84 per Offer Share represents:

- (i) a discount of approximately 3.45% to the closing price of HK\$0.87 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 25.66% to the closing price of HK\$1.13 per Share as quoted on the Stock Exchange on 11 January 2022, being the Last Trading Day;
- (iii) a discount of approximately 24.32% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.11 per Share;
- (iv) a discount of approximately 20.00% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.05 per Share;
- (v) a discount of approximately 17.65% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.02 per Share;

- (vi) a discount of approximately 14.29% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the sixty (60) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.98 per Share;
- (vii) a premium of approximately 47.4% over the closing price of HK\$0.57 per Share as quoted on the Stock Exchange on 10 November 2020, being the last business day prior to the commencement of the Offer Period (i.e. 11 November 2020);
- (viii) a premium of approximately 162.50% over the audited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.32 per Share as at 31 December 2020, calculated based on the Group's audited consolidated net assets attributable to the Shareholders of approximately HK\$101.32 million as at 31 December 2020 and 319,564,892 Shares in issue as at the Latest Practicable Date; and
- (ix) a premium of approximately 189.66% over the unaudited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.29 as at 30 June 2021, calculated based on the Group's unaudited consolidated net assets attributable to the Shareholders of approximately HK\$91.97 million as at 30 June 2021 and 319,564,892 Shares in issue as at the Latest Practicable Date.

*(b) Historical price performance of the Shares*

Set out in the chart below are the daily closing prices and trading volumes of the Shares on the Stock Exchange during the period from 11 January 2021, being the date falling twelve (12) months preceding the Last Trading Day, up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period is fair, adequate, representative and sufficient to illustrate the general trend and level of movement of recent closing prices of the Shares for conducting a reasonable comparison among the historical closing prices of the Shares and the Offer Price.



Source: The website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

During the period from 11 January 2021 to the Last Trading Day (the “**Pre-Announcement Period**”), the Shares closed between HK\$0.52 and HK\$1.14. The closing prices were lower than the Offer Price of HK\$0.84 in 188 trading days out of the 249 trading days during the Pre-Announcement Period. The Offer Price represents a premium of approximately 13.98% over the average closing price of approximately HK\$0.737 per Share during such period.

At the start of the Review Period from 11 January 2021 to early October 2021, the closing price generally moved between HK\$0.52 per Share and HK\$0.80 per Share. An upward trend is observed commencing from early October 2021. The trend persisted until 15 November 2021 when the closing price climbed to HK\$1.06. Since then, the Share price had started fluctuating in the range of HK\$0.94 and HK\$1.10 for a sustained period until 7 January 2022. Thereafter, the closing price moved further upward and reached to its then one-year high within the Pre-Announcement Period at HK\$1.14 on 10 January 2022, one day before the Last Trading Day.

After our review of the Share price movement of the aforementioned period, we noted that on 11 October 2021, the Company published an announcement in respect of the monthly progress update on the possible sale and purchase of the Target Company (the “**Possible Transaction**”) pursuant to Rule 3.7 of the Takeover Code in which it disclosed that as informed by the Vendor, the Company was given to understand that the potential purchaser had substantially completed due diligence review for the purpose of the Possible

Transaction and the parties were in the process of finalizing the terms and conditions of the definitive sale and purchase agreement relating to the Possible Transaction. In addition, the Company was also given to understand from the Vendor that there may be more than one potential purchaser in respect of the Possible Transaction. The upward trend of closing prices of the Shares commenced from early October 2021 may be the market reaction to the progress of the Possible Transaction. Subsequent to the publication of the Joint Announcement, closing price of the Shares spiked to a high of HK\$1.27 on 13 January 2022 and then eased back to HK\$0.87 on the Latest Practicable Date.

Having made enquiry with the Company with respect to the reason for the movement of the market price of the Shares, the Directors confirmed that they are not aware of any reason which could lead to the fluctuation of the closing Share price during the Review Period.

**Shareholders should note that the information set out above is not an indicator of the future performance of the Shares, and that the price of the Shares may increase or decrease from its closing price as at the Latest Practicable Date.**

(c) *Historical trading liquidity of the Shares*

The following table sets out the average daily trading volume (the “**Average Daily Trading Volume**”) of the Shares for each month or period and the percentages of such Average Daily Trading Volumes to the total issued Shares and the Shares held by public Shareholders (the “**public float**”) during the Review Period.

Month/Period	Number of trading days <i>(Note 1)</i> <i>(Days)</i>	Monthly total trading volume	Average Daily Trading Volume <i>(Note 2)</i> <i>(approximate)</i>	Percentage of Average Daily Trading Volume to the total issued Shares <i>(Note 3)</i> <i>(approximate %)</i>	Percentage of Average Daily Trading Volume to the public float <i>(Note 4)</i> <i>(approximate %)</i>
<b>2021</b>					
11 to 31 January	15	3,745,000	249,667	0.078%	0.309%
February	18	4,200,000	233,333	0.073%	0.289%
March	23	1,400,000	60,870	0.019%	0.075%
April	19	1,521,000	80,053	0.025%	0.099%
May	20	1,940,000	97,000	0.030%	0.120%
June	21	2,578,000	122,762	0.038%	0.152%
July	21	4,671,000	222,429	0.070%	0.276%
August	22	4,662,000	211,909	0.066%	0.263%
September	21	9,747,000	464,143	0.145%	0.575%
October	18	6,872,000	381,778	0.119%	0.473%
November	22	5,381,000	244,591	0.077%	0.303%
December	22	1,386,000	63,000	0.020%	0.078%
<b>2022</b>					
January	20	19,304,373	965,219	0.302%	1.196%

*Source: The website of the Stock Exchange*

*Notes:*

1. Number of trading days of the Shares represents number of trading days during the month/period which excludes any trading day on which trading of the Shares on the Stock Exchange was halted.
2. The Average Daily Trading Volume is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.
3. The calculation is based on the Average Daily Trading Volume of the Shares divided by the total number of the Shares in issue in the relevant month/period.
4. The calculation is based on the Average Daily Trading Volume of the Shares divided by 80,675,223 Shares, being the number of Shares held by the public Shareholders in the relevant month/period.

As noted from the above table, the Average Daily Trading Volume of the Shares as a percentage of the total issued Shares had been thin between January 2021 and December 2021, which ranged from approximately 0.019% to 0.145%. During the same period, the corresponding Average Daily Trading Volume of the Shares as a percentage of the total issued Shares held by public Shareholders ranged from approximately 0.075% to 0.575%.

On the first trading day after the release of the Joint Announcement (i.e. 13 January 2022), the daily trading volume of the Shares increased to approximately 13.2 million Shares, representing approximately 4.124% of the total issued Shares and 16.336% of the number of Shares held by the public Shareholders. This is a record high for the twelve-month period prior to the Last Trading Day. Such increase in trading volume of the Shares could be the initial market reaction to the Joint Announcement. Although the trading volume of the Shares was active on the first trading day after the release of the Joint Announcement, the trading volume reduced to approximately 1.3 million Shares on the next trading day (i.e. 14 January 2022) and reduced further on the subsequent trading days. The Average Daily Trading Volume in January 2022 was approximately 965,219 Shares, representing: (i) approximately 0.302% of the total number of issued Shares; and (ii) approximately 1.196% of the number of Shares held by the public Shareholders. The relatively higher figures for the month of January 2022 than other months/periods during the Review Period are mainly due to the high trading volume on 13 January 2022, which appears to be the market reaction to the Joint Announcement as discussed above. If the trading volumes on 13 January 2022 and 31 January 2022 (on which the Stock Exchange was only open for trading in the morning) are removed from the calculation of the Average Daily Trading Volume, the adjusted Average Daily Trading Volume for the month of January 2022 was 338,556 Shares, representing approximately 0.106% of the total issued Shares and 0.402% of the number of Shares held by public Shareholders, which are the usual level prior to the Joint Announcement.

We consider that the liquidity of the Shares was generally very thin during the Review Period. Given that the generally very thin liquidity of the Shares during the Review Period, it is uncertain whether there would be sufficient liquidity in the trading of the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. We therefore consider that the Offer provides the Independent Shareholders, particularly those who hold a large number of Shares, with an assured exit to dispose of part or all of their Shares at the Offer Price if they so wish.

*(d) Comparable analysis*

To further assess the fairness and reasonableness of the Offer Price where information is available, we have conducted a comparable analysis through identifying companies listed on the website of ET Net, Bloomberg Terminal and the Stock Exchange which are engaging

in similar business of the Group (the “**Comparable Companies**”). In the selection of the Comparable Companies, our selection criteria focused on companies that are (i) listed on the Main Board of the Stock Exchange on the Latest Practicable Date; and (ii) principally engaged in the smart card, payment or transportation related, telecommunication hardware related business (the “**Comparable Business**”); and (iii) under HK\$1.0 billion of market capitalization as at the Last Trading Day, which is comparable with the principal business of the Group.

Based on the above selection criteria, we have identified five Comparable Companies as set out in the table below. We are of the view that the Comparable Companies have been exhaustively identified and form a fair, reasonable, appropriate and representative sample for the purpose of drawing a meaningful comparison to the Offer Price.

For comparison purpose, we have considered the price-to-earnings ratio (the “**P/E Ratio**”), which is the most commonly adopted valuation benchmark for valuation of companies. However, given that the Company reported consolidated net loss attributable to the Shareholders for FY2021, we are unable to conduct the comparison on P/E Ratio. We therefore considered the use of the price-to-revenue ratio (the “**P/S Ratio**”) and the price-to-book ratio (the “**P/B Ratio**”) in our market comparable analysis as reference, details of which are set out below.

Comparable No.	Comparable Companies	Principal business	Market capitalization (HK\$'million) (approximate)	P/S Ratio (times) (Note 1)	P/B Ratio (times) (Note 2)
1.	BII Railway Transportation Technology Holdings Company Limited (1522)	The principal activities of the group are (i) design, production, implementation and sale, and maintenance of application solutions for the networking and controlling systems of public transport and other companies, (ii) provision of civil communication transmission services, (iii) design, implementation and sale of related software, hardware and spare part in utility tunnel areas, and (iv) investment in the railway transportation areas and infrastructure areas through investing in equity.	891.29	0.58	0.34
2.	China e-Wallet Payment Group Limited (802)	The principal activities of the group are (i) programming and advertising solutions in mobile platform and (ii) distribution of computer-related and mobile-related electronic products and accessories.	319.88	5.30	0.73



<b>No.</b>	<b>Comparable Companies</b>	<b>Principal business</b>	<b>Market capitalization (HK\$'million) (approximate)</b>	<b>P/S Ratio (times) (Note 1)</b>	<b>P/B Ratio (times) (Note 2)</b>
3.	Elate Holdings Limited (76) (Note 3)	The principal activities of the group are (i) manufacturing and sales of graphite products, (ii) manufacturing and sales of electronic products, and (iii) design and manufacturing services.	364.34	0.49	0.12
4.	Link-Asia International MedTech Group Limited (1143)	The principal activities of the group are (i) provision of electronic manufacturing of communication products, appliances and appliances control products, portable storage devices, multimedia products and beauty care equipment, (ii) marketing and distribution of communication products; (iii) real estate supply chain services; (iv) assisted reproduction medical technology business; and (v) securities and other assets investment.	157.14	0.26	0.49
5.	Synertone Communication Corporation (1613)	The principal activities of the group are (i) design, development and sale of automation control systems and (ii) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.	247.23	2.74	1.28
		Maximum	891.29	5.30	1.28
		Minimum	157.14	0.26	0.12
		Average	395.98	1.87	0.59
		Median	319.88	0.58	0.49
				<b>Implied P/S Ratio</b>	<b>Implied P/B Ratio</b>

Comparable No.	Companies	Principal business	Market capitalization (HK\$'million) (approximate)	P/S Ratio (times) (Note 1)	P/B Ratio (times) (Note 2)
	The Company	Financial technology and smart living business, and financial services	268.43	2.38	2.92

*Notes:*

- The P/S Ratios of the Comparable Companies are calculated by dividing their respective market capitalization as at the Last Trading Day by their respective revenue for the financial year according to their respective latest available annual reports.

The implied P/S Ratio of the Company (the “**Implied P/S Ratio**”) is calculated by dividing its market capitalization based on the Offer Price by the revenue (or sales) of the Group of approximately HK\$112.7 million in FY2020.

- The P/B Ratios of the Comparable Companies are calculated by dividing their respective market capitalization as at the Last Trading Day by their respective unaudited consolidated net asset values according to their respective latest interim reports.

The implied P/B Ratio of the Company (the “**Implied P/B Ratio**”) is calculated by dividing its market capitalization based on the Offer Price by the unaudited consolidated net assets attributable to the Shareholders of approximately HK\$92.0 million as at 30 June 2021.

- The reporting currency of Elate Holdings Limited is in US\$, which have been converted into HK\$ at the rate of US\$1.00 = HK\$7.80 for illustration purpose only.

We noted from the above table that:

- the Implied P/S Ratio of approximately 2.38 times is (i) within the range of P/S Ratios of the Comparable Companies of approximately 0.26 times to 5.30 times; and (ii) higher than the average P/S Ratio of the Comparable Companies of approximately 1.87 times and the median P/S Ratio of the Comparable Companies of approximately 0.58 times; and
- the Implied P/B Ratio of approximately 2.92 times than (i) the range of the P/B Ratios of the Comparable Companies from approximately 0.12 times to approximately 1.28 times; (ii) the average P/B Ratio of the Comparable Companies of approximately 0.59 times and (iii) the median P/B Ratio of the Comparable Companies of approximately 0.49 times,

accordingly, we are of the view that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

We consider an offer price comparable analysis using other general offer transactions would not be meaningful in our consideration as such analysis overlooks certain crucial factors, including but not limited to, the difference of valuation, business environment and outlook among different industries. There were no general offers involving any companies listed on the Main Board of the Stock Exchange engaging in the Comparable Business within one year prior to the Latest Practicable Date for us to make any meaningful comparison and thus assess the fairness and reasonableness of the Offer Price.

## RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

- (i) the Group reported net losses for HY2021, FY2020 and FY2019 which suggests that the Group is operating in a challenging business environment;
- (ii) the consolidated net asset value of the Group has been on a declining trend in our review period from the FY2019 to HY2021;
- (iii) it is anticipated that the such challenging business environment is likely to remain until the China-U.S. trade war and the pandemic situation improves as such, the prospects of the industry would cast uncertainty on the prospects of the Group;
- (iv) although Mr. Mai and Mr. Zhang have investments in companies involved in technology related businesses that Mr. Mai is responsible for the business direction and vision of Guangzhou Huangjia, and Mr. Zhang is a passive investor in Guangzhou Yutaixing and provides similar advice in the areas of overall strategic development and major business decision making to Guangzhou Yutaixing as a shareholder, there is no direct similarity or overlapping of business between Guangzhou Huangjia and Guangzhou Yutaixing and that of the Group. Based on the background information of Mr. Mai, Mr. Zhang, Ms. Xu Tingting, Ms. Mai Qiqi, Mr. Lai Chi Leung and Mr. Zhang Dingfang, it appears that they do not have immediate experience in similar business of the Group and they have yet to conduct a detailed review of the operations of the Group and formulate business strategies for the Group's long term development;
- (v) the Offer Price represents a premium of approximately 13.98% over the average closing price of approximately HK\$0.737 per Share during the Pre-Announcement Period;
- (vi) the closing prices of the Share has been on upward trend commenced from early October 2021 which may be the market reaction to the progress of the Possible Transaction and, subsequent to the Joint Announcement, closing price of the Shares

spiked to a high of HK\$1.27 on 13 January 2022 and then ease back to HK\$0.87 on the Latest Practicable Date. The Directors confirmed that they are not aware of any reason which could lead to the fluctuation of the closing Share price during the Review Period;

- (vii) although the trading volume of the Shares on 13 January 2022 recorded a record daily turnover for the twelve-month period prior to the Last Trading Date, this could be the market reaction to the Joint Announcement. Subsequent trading volume has eased back to the usual level prior to the Joint Announcement;
- (viii) the liquidity of the Shares during the Review Period has been, in our view, generally thin. Such low level of liquidity would suggest that any sale of a significant number of the Shares in the market may result in downward pressure on the market price of the Shares. The Offer provides an assured exit alternative for the Independent Shareholders, particularly those who hold a large number of Shares, to realize part of or all of their investments in the Shares at the Offer Price if they so wish; and
- (ix) the Implied P/S Ratio is within the range of P/S Ratios of the Market Comparable Companies and higher than the average P/S Ratio and median P/S Ratio of the Comparable Companies, and the Implied P/B Ratio is higher than the range of the P/B Ratios, the average P/B Ratio and median P/B Ratio of the Comparable Companies,

we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to accept the Offer.

For those Independent Shareholders who intend to accept the Offer, we would remind them to closely monitor the market price and liquidity of the Shares during the Offer Period, and having regard to their own circumstances, consider selling the Shares in the open market, instead of accepting the Offer, if the net proceeds from the ultimate sale of such Shares would be higher than that receivable under the Offer.

For those Independent Shareholders who intend to dispose of large blocks of Shares in the open market, we would also remind them of the possible difficulty in disposing of their Shares in the open market without creating downward pressure on the market prices of the Shares as a result of the thin trading in the Shares.

For those Independent Shareholders who are attracted by or confident in the prospects of the Group with the Joint Offerors as the controlling Shareholders of the Company may consider to retain their Shares in full or in part.

Yours faithfully,  
for and on behalf of  
**FIRST CAPITAL INTERNATIONAL FINANCE LIMITED**



**Larry Chan**  
Managing Director



**Keith Ho**  
Vice President

*Mr. Larry Chan and Mr. Keith Ho are licensed persons registered with the SFC and as responsible officers of First Capital International Finance Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and have over 29 years and over 6 years of experience in corporate finance industry respectively.*

*\* for identification purposes only*