

25 May 2023

*To: The independent board committee and the independent shareholders
of Hi Sun Technology (China) Limited*

Dear Sirs,

**POSSIBLE MAJOR TRANSACTION
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
MEGAHUNT TECHNOLOGIES INC. ON
THE SCIENCE AND TECHNOLOGY INNOVATION BOARD
OF THE SHANGHAI STOCK EXCHANGE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Spin-off, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 25 May 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Spin-off Co proposes to make an application for a listing of its shares on the SSE STAR Market. As at the Latest Practicable Date, the Company’s indirect interest in the Spin-off Co is approximately 45.73% and the Spin-off Co is an associated company of the Company. The Proposed Listing is expected to involve the issue of new shares of the Spin-off Co, representing not less than 25% of its enlarged issued share capital upon completion of the Proposed Listing. The Proposed Spin-off constitutes a major transaction of the Company for the purposes of Chapter 14 of the Listing Rules, and is subject to among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The Independent Board Committee comprising Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Li Heguo (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Proposed Spin-off are fair and reasonable; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Proposed Spin-off at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of (i) any relationships or interests between Gram Capital and the Company; or (ii) any services provided by Gram Capital to the Company, during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Proposed Spin-off. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Spin-off Co or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Spin-off. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Spin-off, we have taken into consideration the following principal factors and reasons:

Background of the Proposed Spin-off

1. Information on the Group

With reference to the Board Letter and as confirmed by the Directors, the Group has four main business segments which are organised into different business units based on their products and services, namely, Payment and Digital Services Business, Fintech Services Business, Platform Operation Solutions Business and Financial Solutions Business.

With reference to the Board Letter and as confirmed by the Directors, as at the Latest Practicable Date, the Company's indirect interest in the Spin-off Co is approximately 45.73% and the Spin-off Co is an associated company of the Company. The Spin-off Co's main principal business activity is the Spin-off Business. The Company is also interested in approximately 33.71% of PAX Global's issued shares. PAX Global is an associated company of the Company and is principally engaged in development and sales of electronic funds transfer point-of-sale products, provision of maintenance and installation and payment solution services.

Set out below is the audited consolidated financial information of the Group for the two years ended 31 December 2022 as extracted from the Company's annual report for the year ended 31 December 2022 (the "2022 Annual Report"):

	For the year ended 31 December 2022 ("FY2022") HK\$'000	For the year ended 31 December 2021 ("FY2021") HK\$'000	Year-on- year change %
Revenue	3,432,728	4,182,684	(17.93)
– Payment and Digital Services Business	2,652,007	3,342,837	(20.67)
– Fintech Services Business	228,704	212,552	7.60
– Platform Operation Solutions Business	169,476	189,723	(10.67)
– Financial Solutions Business	346,068	336,396	2.88
– Others	36,473	101,176	(63.95)
Gross profit	1,283,582	1,224,081	4.86
Profit attributable to owners of the Company	939,416	3,521,526	(73.32)

	As at 31 December 2022	As at 31 December 2021	Year-on- year change
Net assets value	7,554,282	7,490,994	0.84

As depicted from the above table, the Group's revenue for FY2022 decreased by approximately 17.93% as compared to that for FY2021. With reference to the 2022 Annual Report, such decrease in revenue was mainly due to decrease in revenue generated from the Payment and Digital Services Business as a result of decline in consumer consumption of goods and services in the PRC (resulting from regional spread of COVID-19 pandemic and adoption of epidemic prevention and control measures across the country) which led to decrease in transaction volume being processed.

Despite the aforesaid decrease in the Group's revenue, the Group's gross profit for FY2022 increased by approximately 4.86% as compared to that for FY2021 as the Group's gross profit margin increased from approximately 29.27% for FY2021 to approximately 37.39% for FY2022. With reference to the 2022 Annual Report, such increases in the Group's gross profit and gross profit margin were mainly due to provision of more diversified services such as new digital service products.

The profit attributable to owners of the Company for FY2022 decreased by approximately 73.32% as compared to that for FY2021. With reference to the 2022 Annual Report, such decrease was mainly due to the combination effect of (i) the Group's net other losses for FY2022 as compared to net other gains for FY2021; (ii) increase in the Group's selling expenses and administrative expenses from FY2021 to FY2022; and (iii) the Group did not record gains on deemed disposals of associated companies for FY2022 (gains on deemed disposals of associated companies were approximately HK\$2.86 billion for FY2021), as partially offset by increase in the Group's profit from discontinued operation.

With reference to the 2022 Annual Report, the Group expects to see explosive growth in domestic consumption in 2023, which will drive rapid growth in the Group's merchant transactions. On the other hand, the PRC's supply chain advantage is expected to be further strengthened, leading to growth in export trade and better market opportunities for the Group's cross-border payment business. Moreover, the Group will continue to expand their in-depth cooperation with financial institutions combining their asset securitisation business to provide efficient and low-cost financial services to enterprises. In addition, the Group will continue to expand their business to industries and customers beyond telecoms operators, resulting in continued growth in the Group's contract size. The Group will also continue to increase investment in research and development, and launch new products in the areas of micro-services platform, container cloud platform and enterprise marketing tools to empower their enterprise customers. Looking ahead, as the market gradually recovers, the Group will develop more revenue in new markets in addition to stabilizing the Group's existing revenue scale.

2. Information of the Spin-off Group

With reference to the Board Letter, the Spin-off Co's main principal business activity is sale of its self-developed security SOC (system on a chip) chips (i.e. the Spin-off Business). The Spin-off Business has been operated by the Spin-off Co since its incorporation on 3 August 2011. The Spin-off Co has four offices in the PRC and is headquartered in Beijing, the PRC where the Spin-off Co's main R&D centre is also based. The Spin-off Co has two direct wholly-owned subsidiaries, namely 天津兆訊電子技術有限公司 (unofficial English translation being Tianjin Mega Hunt Microelectronics Company Limited), a company incorporated in the PRC with limited liability on 29 April 2019 and 北京兆訊恒達技術有限公司 (unofficial English translation being Beijing Megahunt Hengda Technology Company Limited), a company incorporated in the PRC with limited liability on 28 March 2022.

As advised by the Directors, the Spin-off Group adopts the typical “fabless” business model (the “**Fabless Model**”) which focuses on the integrated circuit design and entrusts wafer manufacturing, packaging and testing of the integrated circuits to wafer manufacturing companies, packaging companies and testing companies, respectively. The term “fabless” means that the company (i) only designs and sells the hardware and semiconductor chips but does not manufacture the silicon wafers, or chips used in its products; and (ii) outsources the fabrication to manufacturers.

With reference to the Board Letter, security chips are an integral component of any central processing unit (CPU) which, among other functions, serves to encrypt the data passing through and monitor malicious attacks or surveillance. A SOC is essentially an integrated circuit that takes a single platform and integrates an entire electronic or computer system onto it. It is, as its name suggests, an entire system on a single chip. The components that a SOC generally looks to incorporate within itself include a secure CPU, embedded memories (SRAM (static random-access memory) and flash), hardware physical protection units, sorts of crypto-engines, as well as analog input and output blocks. The Spin-off Co’s SOC chip products are deployed in various applications (including traditional POS (point-of-sale) payment terminals, mobile POS and smart POS payment terminals, passcode pads, smart locks, fingerprint and facial recognition payment terminals, QR code (quick response code) payment terminals, magstripe card reader payment terminals, smart robots and smart printers).

Set out below is the unaudited consolidated financial information of the Spin-off Group for the two years ended 31 December 2022 (prepared in accordance with accounting principles generally accepted in the PRC (PRC GAAP) as provided by the Company (the “**Spin-off Group FI**”):

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000	Year-on- year change %
Revenue	367,168	376,693	(2.53)
Operating income	46,556	33,256	39.99
Profit after tax	51,076	32,920	55.15
	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000	Year-on- year change %
Net assets	335,675	278,992	20.32

3. Information of the Remaining Group

With reference to the Board Letter, upon completion of the Proposed Spin-off, the four existing main business segments (i.e. Payment and Digital Services Business, Fintech Services Business, Platform Operation Solutions Business and Financial Solutions Business) of the Remaining Group subsequent to the Spin-off Co becoming an associated company of the Company in May 2022 will remain unchanged.

Reasons for and benefits of the Proposed Spin-off and use of proceeds

With reference to the Board Letter, the Board believes that it is commercially beneficial to the Company and in the interests of the Shareholders to effect the Proposed Spin-off for the following reasons:

- (a) The Spin-off Business has grown to a sufficient size that warrants a separate listing, which can further unlock its value. The Proposed Spin-off and a separate listing of the shares of the Spin-off Co will enhance its corporate profile amongst its customers and other business partners. It will also enable the Spin-off Co to face the investors directly, which will promote its brand awareness.

Based on the the Spin-off Group FI, expected size of offering of the Proposed Listing and our discussion with the Company, the Spin-off Co can satisfy relevant financial requirements as stipulated under 《上海證券交易所科創板股票發行上市審核規則(2020年修訂)》(Rules of Shanghai Stock Exchange for Issuance and Listing Review of Stocks on the SSE STAR Market (Revised in 2020)).

- (b) The Proposed Spin-off will enable the Spin-off Co to have its own fund raising platforms, allowing it to (i) have direct and independent access to both the debt and equity capital markets, which in turn potentially provide it with greater debt capacity to deploy funds towards its development, operations and investment opportunities; and (ii) gain exposure to more specialized investors and have better chances to obtain more targeted investments and attract strategic investors for forming strategic partnerships with the Spin-off Co.

As the Spin-off Co's main principal business activity is sale of its self-developed security SOC chips, the Spin-off Co may require capital to support its business development (including R&D) from time to time. Based on the Spin-off Group FI, the Spin-off Group incurred substantial R&D expenses as a percentage to the Spin-off Group's revenue for each of FY2021 and FY2022. We consider that it is beneficial for the Spin-off Co to have its own fund raising platforms.

- (c) The cash proceeds to be received from the public offering and/or placing of shares of the Spin-off Co will provide capital to the Spin-off Co for its operations and expansion plan and help it become more competitive, which in turn will provide better returns to the shareholders of the Spin-off Co.

Details of the intended use of proceeds from the Proposed Listing are set out under the latter part of this section.

- (d) The Proposed Spin-off will lead to a more direct alignment of the responsibilities and accountability of the Spin-off Co's management with its operating and financial performance, as a result of heightened scrutiny of the investor community, through the enhanced clarity on the business and financial status of the Spin-off Co on a standalone basis. This is anticipated to enhance management focus, lead to faster response time to market changes as well as increase operational efficiency. It will also allow the investors to better measure the management's performance against the stock market performance of the Spin-off Co in comparison with other industry peers listed on the SSE STAR Market.
- (e) The Proposed Spin-off will enable more focused development, strategic planning and better allocation of resources for the Remaining Group and the Spin-off Co with respect to their respective businesses. In addition, the Proposed Spin-off will improve the ability of the Spin-off Co to recruit, motivate and retain key management personnel.

As explained in the sub-section headed "3. INFORMATION ON THE SPIN-OFF GROUP AND THE REMAINING GROUP – (e) Management Independence" of the Board Letter, following completion of the Proposed Spin-off, the Company and the Spin-off Co will have separate board of directors that will function independently of each other and the board of directors and senior management of the Spin-off Co could operate independently of the Company and in the interests of its shareholders as a body in general and not in the interests of the Company only, in case where the interests of the Spin-off Co and the Company are actually or potentially in conflict.

In addition, the Spin-off Co may utilise equity-based remuneration to recruit, motivate and retain key management personnel as its equity is expected to have market value upon completion of the Proposed Listing.

- (f) All benefits enjoyed by the Spin-off Co through the Proposed Spin-off are expected to accelerate its expansion and improve its overall operating and financial performance, thereby creating greater value for the Company and its shareholders as a whole. Given that upon completion of the Proposed Spin-off, the Company (through New Concept and Megahunt HK) will remain as the single largest shareholder of the Spin-off Co, it is expected that the Company will continue to enjoy the benefits of the growth and development of the Spin-off Co. At the same time, the Proposed Spin-off provides the Company and its shareholders with an opportunity to realise the value of their investment in the Spin-off Co on a separate stand-alone platform.

With reference to the Board Letter, based on the current structure of the Proposed Listing which is subject to finalization by the Spin-off Co, upon completion of the Proposed Listing (which involves the public offering of not less than 19,933,334 and not more than 20,200,000 new shares of the Spin-off Co), the Company's equity interests in the Spin-off Co will decrease from 45.73% to approximately 34.30% (assuming 19,933,334 new shares of the Spin-off Co are issued) or approximately 34.19% (assuming 20,200,000 new shares of the Spin-off Co are issued). Nevertheless, the Spin-off Co will continue to be an associated company of the Company. It is reasonable to expect that the Company will continue to enjoy the benefits of the growth and development of the Spin-off Co (e.g. possible increase in share price of the Spin-off Co (as a listed company) leading to increase in value of the Company's equity interests in the Spin-off Co).

With reference to the Board Letter, the Spin-off Co intends to use the net proceeds of between RMB900 million to RMB1.4 billion (after deducting the fees and expenses payable by the Spin-off Co in the Proposed Spin-off) from the Proposed Listing in the following manner (subject to final approval by the CSRC):

- (i) approximately 31% of the net proceeds to fund the R&D and commercialisation projects of its multi-core security SOC chips (the **"Multi-core Security SOC Chips Project"**);
- (ii) approximately 16% of the net proceeds to fund the R&D and commercialisation projects of its mobile payment security chips (the **"Mobile Payment Security Chips Project"**);
- (iii) approximately 23% of the net proceeds to fund the construction projects of its R&D centre (the **"R&D Centre Project"**); and
- (iv) approximately 30% of the net proceeds to fund the working capital requirements of its operations.

For our due diligence purpose, we obtained further breakdown of the above intended uses of net proceeds (including (a) leasing expenses, equipment and software purchase costs, R&D costs and funding reserves for the Multi-core Security SOC Chips Project and the Mobile Payment Security Chips Project; and (b) leasing expenses, decoration costs, equipment and software purchase costs of R&D Centre Project). Based on our discussion with the Company, we understood each of the aforesaid projects is essential for the Spin-off Group's continuous operation and business development, in particular, (i) after implementing the Multi-core Security SOC Chips Project, the Spin-off Co will further improve the SOC performance, strengthen the security protection of the IoT (Internet of Things) end devices on information transmission, processing and storage, strengthen the "terminal-channel-cloud" integration strategy for security solution of the Spin-off Co, enter into the smart IoT end and industry internet market and broaden the business scope of the Spin-off Co; and (ii) after the implementing the Mobile Payment Security Chips Project, the Spin-off Co will conduct R&D of and produce wearable devices, embedded security chip for mobile payment end devices, which could broaden the business scope of the Spin-off Co and further consolidate the market position of the Spin-off Co. Accordingly, we consider that the net proceeds from the Proposed Listing will provide capital to the Spin-off Co for its operations and expansion plan.

Having considered the above, we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

The Proposed Spin-off

Percentage of shares to be issued

The Proposed Listing is expected to involve the issue of new shares of the Spin-off Co, representing not less than 25% of its enlarged issued share capital upon completion of the Proposed Listing. The size of the offering has not been determined and is subject to further discussion between the Spin-off Co and the underwriter(s).

As at the Latest Practicable Date, the Spin-off Co has 59,800,000 issued shares and the Company's indirect interest in the Spin-off Co is approximately 45.73% and the Spin-off Co is accounted for as an associated company of the Company. Based on the current structure of the Proposed Listing which is subject to finalization by the Spin-off Co, upon completion of the Proposed Listing (which involves the public offering of not less than 19,933,334 and not more than 20,200,000 new shares of the Spin-off Co), the Company's equity interests in the Spin-off Co will decrease from 45.73% to approximately 34.30% (assuming 19,933,334 new shares of the Spin-off Co are issued) or approximately 34.19% (assuming 20,200,000 new shares of the Spin-off Co are issued).

Conditions of the Proposed Listing

With reference to the Board Letter, the Proposed Listing will be conditional upon, among other things, the following:

- (i) approval of the Proposed Spin-off by the Independent Shareholders at the SGM;
- (ii) the Stock Exchange having agreed that the Company may proceed with the Proposed Spin-off under PN15 and granted the waiver from strict compliance with the requirement of Paragraph 3(f) of PN15 of the Listing Rules;
- (iii) approval of the Proposed Listing by the CSRC and the Shanghai Stock Exchange;
- (iv) approval of the board of directors and shareholders of the Spin-off Co; and
- (v) the market conditions and other considerations.

As at the Latest Practicable Date, condition (ii) and the approval of the board of directors of the Spin-off Co referred to in condition (iv) have been fulfilled.

If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable.

Proceeds to be raised from the Proposed Spin-off

With reference to the Board Letter, the offer price of the Spin-off Co's initial public offering has not been fixed yet and is subject to market conditions close to the launch of the issuance and will be determined by a book-building process organised by the underwriter of and to be agreed by the Spin-off Co. Assuming that the offer price of each new share of the Spin-off Co is fixed between RMB50 (the "**Minimum Assumed Price**") and RMB75, the Company estimates that the gross proceeds to be raised from the Proposed Listing will be between RMB1 billion to RMB1.5 billion.

The proposed offer price range is determined primarily with reference to the analysis of price-to-earnings ratio of comparable companies, which are listed companies with security chip business or mainly engaged in SOC business and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange and the historical financial performance of the Spin-off Group.

We noted that the trading multiples analysis, such as price to earnings ratio (“**PER**”) and price to book ratio (“**PBR**”), are commonly adopted valuation methods in the market. Based on the Spin-off Group FI, the Spin-off Group recorded profit after tax for each of the two years ended 31 December 2022. Accordingly, we considered that the PER could compare value of the Spin-off Co with its peers from profitability perspective. Based on our discussion with the Company on the Spin-off Group FI, we understood that the major assets items of the Spin-off Group as at 31 December 2022 include inventories, receivables, fixed assets (mainly R&D equipment) and intangible assets (intelligent property) (represented approximately 76% of the Spin-off Group’s total assets in aggregate), which are essential for the Spin-off Group’s continuous operation and business development and may reflect the Spin-off Group’s operation scale. PBR could compare value of the Spin-off Co with its peers from assets perspective. Accordingly, we adopted PER and PBR to assess the Minimum Assumed Price. We searched for companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange which offer, amongst others, similar products of the Spin-off Group and operate under the Fabless Model (the “**Comparable Company(ies)**”). To the best of our knowledge and as far as we are aware of, we found 7 companies which met the said criteria and they are exhaustive.

Set out below are PERs and PBRs of the Comparable Companies based on their closing prices as at 22 May 2023 (being the date of announcement of the Proposed Spin-off, the “**Announcement Date**”), and their latest published financial information:

Company name (Stock code)	Principal business	Market Capitalisation (approximate RMB billion)	PER (Note 1)	PBR (Note 2)
Shanghai Fudan Microelectronics Group CO., LTD. (1385 & SH688385)	Large-scale integration design, development, testing and providing system solutions.	34.45	41.44	9.40
C*Core Technology Co., Ltd. (SH688262)	Providing intellectual property authorization, chip customization services, independent chip and module products.	13.43	161.90	4.86
Bestechnic (Shanghai) Co., Ltd. (SH688608)	Research, development, design and sales of intelligent audio and video system-on-chip chips.	17.22	140.62	2.88

Company name (Stock code)	Principal business	Market Capitalisation (approximate RMB billion)	PER (Note 1)	PBR (Note 2)
Nations Technologies Inc. (SZ300077)	Research, development, design and sales of integrated circuit with independent technology and independent brands, providing corresponding system solutions and after-sales technical support services.	8.86	N/A (Note 3)	5.56
Unigroup Guoxin Microelectronics Co., Ltd. (SZ002049)	Special integrated circuit business, intelligent security chip business, quartz crystal frequency device business and semiconductor power device business.	80.38	30.54	7.82
GigaDevice Semiconductor Inc. (SH603986)	Research and development, technical support and sales of memories, microcontrollers and sensors.	75.58	36.82	4.92
Rockchip Electronics Co., Ltd. (SH603893)	Design, development and sales of large-scale integrated circuits and application solutions.	34.38	115.60	11.78
Maximum			161.90	11.78
Minimum			30.54	2.88
Average			87.82	6.75
The Spin-off Co (based on the Minimum Assumed Price)			58.54 (Note 4)	8.91 (Note 5)
The Company			2.19	0.31

Source: the Hong Kong Stock Exchange's website, the cninfo website and Wind Financial Terminal

Notes:

- The PERs of the Comparable Companies and the Company were calculated based on their respective latest published profit attributable to owners of the company according to their latest published annual results and their respective closing prices as quoted on relevant stock exchange and total issued shares as at the Announcement Date.

2. The PBRs of the Comparable Companies and the Company were calculated based on their respective net assets attributable to the owners of the company according to their latest published annual results or quarterly reports and their respective closing prices as quoted on relevant stock exchange and total issued shares as at the Announcement Date.
3. The subject company recorded loss attributable to the owners of the company in its latest financial year.
4. The implied PER of the Spin-off Co was calculated based on the Spin-off Group's profit after tax for FY2022, the Spin-off Co's issued shares as at the Latest Practicable Date and the Minimum Assumed Price.
5. The implied PBR of the Spin-off Co was calculated based on the Spin-off Group's net asset value as at 31 December 2022, the Spin-off Co's issued shares as at the Latest Practicable Date and the Minimum Assumed Price.

We noticed from the above table that the PERs of the Comparable Companies ranged from approximately 30.54 times to 161.90 times, with an average of approximately 87.82 times; while the PBRs of the Comparable Companies ranged from approximately 2.88 times to 11.78 times, with an average of approximately 6.75 times. The implied PER of approximately 58.54 times of the Spin-off Co based on the Minimum Assumed Price is within the aforesaid PER range and below the average PER of the Comparable Companies. The implied PBR of approximately 8.91 times of the Spin-off Co based on the Minimum Assumed Price is within the aforesaid PBR range and above average PBR of the Comparable Companies. Although the implied PER of approximately 58.54 times of the Spin-off Co based on the Minimum Assumed Price is below the average PER of the Comparable Companies, (i) such implied PER is based on the Minimum Assumed Price; and (ii) with reference to the Board Letter, the offer price under the Proposed Listing is subject to market conditions close to the launch of the issuance and will be determined by a book-building process organised by underwriter(s) and to be agreed by the Spin-off Co. Given the above, we consider that the pricing of the Proposed Listing is fair and reasonable.

In addition, as depicted from the above table, the Company's PER and PBR are substantially lower than those of the implied PER and PBR of the Spin-off Co based on the Minimum Assumed Price. Accordingly, the Proposed Spin-off is expected to unlock the value of the Spin-off Co.

Lock-up period

With reference to the Board Letter, according to the requirement of the CSRC, the Company, New Concept and Megahunt HK, as the controlling shareholders of the Spin-off Co, shall not dispose of its shares of the Spin-off Co for a period of 36 months from the successful listing of the Spin-off Co on the SSE STAR Market (“**Lock-up Period**”). In case of disposal of the shares of the Spin-off Co during the period of two years after the expiry of the Lock-up Period, each of the Company, New Concept and Megahunt HK will undertake that it shall not (i) dispose of more than 25% of its shares of the Spin-off Co in each of the aforesaid two years; and (ii) dispose at a price lower than the offer price of the Proposed Listing.

Upon our enquiry, the Directors confirmed us that the Company has no present intention to dispose the shares of the Spin-off Co immediately after the Proposed Spin-off. Accordingly, notwithstanding the aforesaid lock-up arrangement and subsequent disposal undertakings, the Proposed Spin-off will be beneficial to the Company in long-term as (i) the shares of the Spin-off Co held by the Company (through New Concept and Megahunt HK) will become publicly tradable asset as a result of the Proposed Spin-off; and (ii) the Company (through New Concept and Megahunt HK) will remain as the single largest shareholder of the Spin-off Co upon completion of the Proposed Spin-off.

Taking into account the principal factors as discussed above, we consider that the Proposed Spin-off is in the interest of the Company and the Shareholders as a whole and the term of the Proposed Spin-off are fair and reasonable.

Possible financial effects

With reference to the Board Letter, upon completion of the Proposed Spin-off, the Group is expected to hold approximately 34.30% of the enlarged issued share capital of the Spin-off Co (assuming 25% of the enlarged issued share capital of the Spin-off Co is being issued in the Proposed Listing), the Spin-off Co will continue to be an associated company of the Company. The operating results of the Spin-off Co are not and will not be consolidated into the consolidated financial statements of the Company.

With reference to the Board Letter, the Proposed Spin-off, which is expected to involve the issue of new shares of the Spin-off Co, will constitute a deemed disposal of the Group’s interest in the Spin-off Co. It is expected that the Company will recognise an unaudited net gain on the deemed disposal of the Spin-off Co as set out in the section headed “5. FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP” of the Board Letter. The net gain on deemed disposal of Spin-off Co will be recorded in the profit or loss of the Group with the corresponding adjustment of the same amount debited to the investments accounted for using the equity method on the consolidated balance sheet. However, the actual gain on deemed disposal of the Spin-off Co may differ as it is estimated based on a number of assumptions and the amount will be calculated upon completion of the Proposed Spin-off.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off.

WAIVER FROM STRICT COMPLIANCE WITH PARAGRAPH 3(F) OF PN15

With reference to the Board Letter, paragraph 3(f) of PN15 requires the Company to have due regard to the interests of the existing Shareholders by providing them with an assured entitlement to the shares of the Spin-off Co, either by way of a distribution in specie of the existing shares of the Spin-off Co or by way of preferred application in any offering of existing or new shares in the Spin-off Co.

With reference to the Board Letter, based on the legal advice given by the PRC counsel of the Spin-off Co on the Proposed Spin-off, non-PRC investors (other than certain qualified investors) are not permitted under the PRC laws and regulations to acquire the shares of the Spin-off Co which are to be listed on the SSE STAR Market. Only PRC citizens, PRC legal persons, PRC partnership and qualified foreigners can satisfy the condition to open a securities account in PRC so as to obtain shares of the Spin-off Co upon listing. Additionally, priority allocation in public offering is generally prohibited under the PRC laws and regulations to ensure fair and equal treatment of investors. As such, unless the existing shareholders of the Company can meet the requirements for eligible investors, there are legal obstacles for the existing shareholders of the Company to acquire the shares of the Spin-off Co and therefore they are not entitled to the assured entitlements to the shares of the Spin-off Co in accordance with the PRC laws and regulations.

With reference to the Board Letter, taking into account the legal restrictions as mentioned above, the Board considers that it would be unduly burdensome and practically impossible for the Company to obtain and verify the background information of all its shareholders for the purpose of ascertaining whether they are so qualified. Therefore, the Board is of the view that the Proposed Spin-off and a waiver from strict compliance with the assured entitlement requirement are fair and reasonable and in the interest of the Company and its shareholders as a whole. Accordingly, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15.

Given the extent of the PRC laws and regulations as stated above, we concur with the Company that it would not be practicable or feasible to provide any entitlement to all its Shareholders to subscribe for the shares of the Spin-off Co.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Proposed Spin-off are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Proposed Spin-off and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.