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IGC International Genius Company

INTERNATIONAL GENIUS COMPANY

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 33)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO DISCLOSEABLE TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcement of International Genius Company (the "**Company**", together with its subsidiaries, the "**Group**") dated 23 January 2024 (the "**Announcement**") in relation to the acquisition of the entire issued share capital of Deep Neural Computing Company Limited involving issue of consideration shares under general mandate. Unless the context otherwise requires, capitalized terms used herein shall have the same meaning as those defined in the Announcement.

In addition to the information provided in the Announcement, the Company would like to provide the following additional information in relation to the Acquisition and the Target Company.

Additional information of the Target Group

As at the date of the Announcement, the Target Group entered into a number of contracts with its customers in relation to the provision of license and technical know-how on the algo-trading program developed by the Target Group. The customers of the Target Group are principally engaged in provision of asset management services.

The Target Company principally charges its customers (i) performance fee based on a percentage of the absolute amount of the return of the funds managed by the customers; and/or (ii) technical advice fee based on any new subscription to the funds; and/or (iii) fixed annual service fee. Accordingly, the excepted revenue of the Target Company is determined based on the expected AUM and expected returns of the funds managed by the customers of the Target Group.

As at the date of the Announcement, the Target Group entered into five agreements with its customers that is expected to contribute revenue for the Target Group for the year ending 31 December 2024, pursuant to which the Target Company is expected to generate (i) over HK$74 million in performance fee in respect of certain customers with a total expected AUM of over HK$1,380 million as at 31 December 2024; (ii) technical advice fee of approximately HK$8 million based on the expected new subscription amount to the relevant funds; and (iii) fixed annual service fee of approximately HK$7.6 million.

Pursuant to the service agreements, unless otherwise terminated in writing, the Target Company will provide its service to the respective customers until the fund's liquidation.

Profit forecast of the Target Group under the valuation report

The key inputs of the Valuation are set out as follows:

Key assumptions	**Inputs**	**Basis of assumption**
Terminal growth rate	Nil	In determining the terminal value for the Valuation, for prudence sake, the Valuer has adopted the capitalised earning method, where no terminal growth rate was adopted as the terminal value is determined based on the net operating profit after tax of the Target Group for the year ending 31 December 2028 (being the final year in the forecast) divided by the discount rate.
Discount rate	15.83%	Determined based on weighted average cost of capital (WACC)
Discount rate of lack of marketability	15.7%	Based on the "2022 Edition Stout Restricted Stock Study Companion Guide"

Revenue growth rate for the year ending 31 December 2025 to 2028	13%	The growth rate of 13% was adopted with reference to the growth rate of the global algorithm trading industry in the near future as forecasted by the following research reports: (i) a report published in 2022 by Straits Research which forecasts the compound annual growth rate (CAGR) of the algorithmic trading market size to be approximately 12.73% for the period from 2022 to 2030; (ii) a report published in January 2022 by Spherical Insights, which forecasts the CAGR of the algorithmic trading market size to be approximately 13.60% for the period from 2022 to 2030; and (iii) a report published in 2021 by Grand View Research which forecasts the CAGR for the algorithmic trading market size to be approximately 12.20% for the period from 2022 to 2030.

Based on the key inputs, the Valuer has performed a sensitivity analysis on (i) the discount rate; and (ii) the revenue growth rate adopted in the Valuation, details of which are set out as follows:

Discount rate (changes in the absolute value)	**Annual revenue growth rate** (changes in absolute value)	**Valuation** *HK$ (million)*	**Increase/ (decrease) in Valuation** *HK$ (million)*
14.83% (-1%)	12% (-1%)	694.8	25.2
14.83% (-1%)	13% (base input)	715.4	45.8
14.83% (-1%)	14% (+1%)	736.5	66.9
15.83% (base input)	12% (-1%)	650.7	(18.9)
15.83% (base input)	13% (base input)	669.6	–
15.83% (base input)	14% (+1%)	689.0	19.4
16.83% (+1%)	12% (-1%)	611.8	(57.8)
16.83% (+1%)	13% (base input)	629.3	(40.3)
16.83% (+1%)	14% (+1%)	647.2	(22.4)

Additional information on the Profit Guarantee

As disclosed in the Announcement, subject to the incentive arrangement under the Sale and Purchase Agreement, the PG-linked Consideration Shares shall be released to the Vendor for each of the financial year ending 31 December 2024, 2025 and 2026 during the PG Period.

In the event (i) the Actual profit for the year ending 31 December 2024 exceeds HK$190 million (the "**Scenario I**"); or (ii) for the two years ending 31 December 2025 exceeds HK$230 million, all PG-linked Consideration Shares shall be released by the Escrow Agent to the Vendor (the "**Scenario II**").

If the aggregate Actual profit for the three years ending 31 December 2026 falls below HK$270 million, the number of PG-linked Consideration Shares to be released by the Escrow Agent to the Vendor shall be reduced based on the formula as disclosed in the Announcement (the "**Adjustment**").

For illustration purpose, in the event all PG-linked Consideration Shares are released to the Vendor under Scenario I or Scenario II (the "**Early Release Arrangement**"), the Adjustment would not apply in case Scenario I or Scenario II was met but the aggregate Actual Profit for the three years ending 31 December 2026 of HK$270 million was not met.

As disclosed in the Announcement, the Early Release Arrangement is intended to provide incentive for the management of the Target Group (i.e. the Vendor) to develop the business. As disclosed in this announcement, the Target Group mainly provides quantitative trading algorithms services to its customers for fund(s) management. The fees payable by the customers under the service agreement represents (i) a fixed service fee for; and (ii) a fee proportional to absolute amount of the investment return generated by the customers from the fund(s) it manages which deploys the proprietary trading technology of the Target Group.

The Company considers the Early Release Arrangement is fair and reasonable based on the following factors:

(a) with reference to the discount rate of 15.83% adopted in the Valuation and assuming the Profit Guarantee of HK$270 million was fully achieved by the end of the PG Period

  (1) the present value of the Profit Guarantee of HK$270 million as at 31 December 2024 (being the end of year 1 of the PG Period) would represent approximately HK$201 million. As such, in the event the Target Group achieves such a remarkable financial performance for the year ending 31 December 2024 which triggers the Early Release Arrangement, the present value of HK$190 million (at the end of year 1 of the PG Period) merely represented approximately 5.6% discount to the present value of the Profit Guarantee at 31 December 2024; and

  (2) the present value of the Profit Guarantee of HK$270 million as at 31 December 2025 (being the end of year 2 of the PG Period) would represent approximately HK$233 million. As such, in the event the Target Group achieves such a remarkable financial performance for the years ending 31 December 2025 which triggers the Early Release Arrangement, the present value of HK$230 million (at the end of year 2 of the PG Period) represented around the same amount to the present value of the Profit Guarantee at 31 December 2025.

Given the discount rate adopted in the Valuation represented the internal discount rate adopted by the Company, the consideration payable under the Early Release Arrangement merely represented the present value of the Profit Guarantee or the present value of the underlying Consideration, which may provide incentives for the management of the Target Group to develop the business of the Target Group as mentioned in the Announcement;

(b) under the aforesaid fee mechanism, if the Target Group is able to achieve the level of profit which triggers the Early Release Arrangement, this would necessarily imply that the Target Group's customer(s) had recorded a satisfactory level of return from those fund(s) which deployed the proprietary trading technology of the Target Group. In such circumstances, the Company considers that the Target Group's customer (s) would highly likely continue retaining the service of the Target Group in view of the performance of the Target Group's proprietary trading technology as well as the possible disruptions or hiccups that might be caused by switching to other trading technologies; and

(c) in the event that either Scenario I or Scenario II occurs, the Target Group could leverage upon such track record to market and promote its proprietary trading technology to other potential asset managers and investment funds. In the financial investment community, past performance always speaks louder than any other forms of advertisement or endorsement. Given that the Target Group was in a relatively early stage of development, it would be commercially justifiable for the Company to provide incentive, via the Early Release Arrangement, to the Vendor, having regard to the potentially significant business goodwill and reputation that the Target Group could achieve in case it could record HK$190 million or HK$230 million within the first year or first two years after the Acquisition, respectively.

Management Lock-up Period

As disclosed in the Announcement, the Vendor undertakes to procure the existing management of the Target Group to remain in the employment with the Target Group for the Management Lock-up Period.

Pursuant to the Sale and Purchase Agreement, the Management Lock-up Period would be considered fulfilled if the Vendor has remained under the employment of the Target Group during the specified period.

Application for listing

As disclosed in the Announcement, application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Company would like to supplement on the above as follows:

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the 21,000,000 Consideration Shares, being the Consideration Shares to be allotted and issued upon Completion.

Subject to the compliance of the minimum public float requirement, application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the PG-linked Consideration Shares and the 5,250,000 Consideration Shares to be issued in relation to the Management Lock-up Period.

CLARIFICATION

The Company would like clarify that certain paragraphs disclosed in the Announcement shall be read as follows (with amendments underlined):

(1) In respect of the second paragraph under the section headed "Profit Forecast under the Preliminary Valuation Report" on page 11 of the Announcement:

"The market approach was not used because there is limited information on similar assets in the market for comparison purpose, and the cost approach was not used because such approach is generally not appropriate in estimating the value in use of intangible assets. Given that the preliminary valuation on the Target Company was prepared by the Valuer based on the income approach, the valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. Accordingly, the requirements under Rules 14.60A of the Listing Rules apply."

(2) In respect of the first paragraph under the section headed "Profit Forecast under the Preliminary Valuation Report – Confirmation" on page 13 of the Announcement:

"The reporting accountants of the Company, McMillan Woods (Hong Kong) CPA Limited (the "**Reporting Accountants**"), have been engaged to report on the calculations of the discounted cash flows used in the valuation prepared by the Valuer. The Reporting Accountants have reported that so far as the calculations are concerned, the discounted cash flows have been properly compiled in all material aspects in accordance with the bases and assumptions as set out in the valuation. The text of the report issued by the Reporting Accountants in relation to the calculations of the discounted cash flows is set out in Appendix I to this announcement for the purpose under Rule 14.60A(2) of the Listing Rules."

(3) In respect of the third paragraph under the section headed "Reporting Accountants' Responsibilities" in Appendix I to the Announcement:

"We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Company. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.60A(2) of the Listing Rules, and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work."

(4) In respect of the last paragraph in Appendix II to the Announcement:

"Our opinion has been given for the sole purpose of compliance with Rule 14.60A(3) of the Listing Rules and for no other purpose."

GENERAL

The above supplemental information does not affect other information and contents set out in the Announcement. Save as disclosed herein, the contents of the Announcement remain unchanged and shall continue to be valid for all purposes.

For and on behalf of the Board
International Genius Company
Mr. Cheung Ka Fai
Company Secretary

Hong Kong, 6 March 2024

As at the date of this announcement, (i) the executive Director of the Company is Dr. Lin Feng; (ii) the non-executive Directors of the Company are Ms. Sun Qiuzhen and Mr. Dai Chengyan; and (iii) the independent non-executive Directors of the Company are Mr. Lo Hang Fong, Mr. Wang Jun Sheng and Mr. Yip Tze Wai Albert.