Amuse Group Holding Limited
佰悅集團控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8545)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO DISCLOSEABLE TRANSACTION: DISPOSAL OF APPROXIMATELY 45.00% OF THE ISSUED SHARE CAPITAL OF M.I.P. INTERNATIONAL LIMITED

Reference is made to the announcement of Amuse Group Holding Limited (the "**Company**") dated 30 September 2024 (the "**Announcement**"). Unless otherwise stated, capitalised terms used herein shall have the same meaning as those defined in the Announcement.

VALUATION

As disclosed in the Announcement, the Consideration was determined with reference to, among others, the market value of the Sale Shares of HK$7,860,000 as at 30 September 2024 (the "**Valuation Date**") as appraised by BMI Appraisals Limited, an independent professional valuer appointed by the Company (the "**Valuer**") (the "**Valuation**").

The Board would like to provide the following supplemental information in relation to the Valuation.

VALUATION APPROACH: INCOME APPROACH

The Valuer considered the three generally accepted approaches in the course of the Valuation, namely (i) the income approach; (ii) the market approach; and (iii) the cost approach.

After consideration, the Valuer abandoned the market approach as it relies generally on deriving value through a measure of the values of industry comparables or market transactions. Given the characteristics of the Disposal Company, there was a lack of explicitly industry comparables or market transactions available as at the Valuation Date to derive an indicative value of the Disposal Company with sufficient level of accuracy. The Valuer also abandoned the cost approach as the replication cost of the Disposal Company may not represent the value of the same. Given there was a lack of explicitly industry comparables to the Disposed Company, the market values of the comparable companies were not directly referenced to or compared to that of the Disposed Company in the Valuation. Unlike the market approach, no market value related ratios (i.e. price multiples) were derived and applied under the income approach adopted in the Valuation.

The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset. The Valuer considered the income approach the most appropriate valuation approach as it takes the future growth potential and firm-specific issues of the Disposal Company into consideration. Therefore, the Valuer utilised the income approach for the Valuation.

The following processes have been conducted by the Valuer in the course of the Valuation:

— Interviewed with the senior management of the Company in respect of the core operation of the Disposed Company;

— Obtained relevant financial and operational information in respect of the Disposed Company from the senior management of the Company;

— Examined the basis and assumptions of the financial and operational information in respect of the Disposed Company provided by the senior management of the Company;

— Conducted appropriate research to obtain sufficient market data, industry information and statistical figures from publicly available sources; and

— Prepared the valuation and valuation report in accordance with generally accepted valuation procedures and practices.

VALUATION METHOD: DISCOUNTED CASH FLOW METHOD

Under the income approach, the discounted cash flow ("**DCF**") method was adopted in the Valuation, as the Valuer regarded it as the most fundamental and prominent method of the income approach.

In applying DCF method, the free cash flows of the Disposal Company in future years were determined as follows:

$$FCF = NI + NCE + Int\ (1 - T_{int}) - NCI - InvFA - InvNWC$$

In which:

FCF	=	*Free cash flow;*
NI	=	*Net income after tax;*
NCE	=	*Non-cash expenses;*
Int	=	*Interest expenses;*
T_{int}	=	*Tax rate applied to interest expenses;*
$Int\ (1 - T_{int})$	=	*After-tax interest expenses;*
NCI	=	*Non-cash incomes;*
$InvFA$	=	*Investment in capital expenditure; and*
$InvNWC$	=	*Investment in net working capital.*

The results of the free cash flow were then discounted using a discount rate to determine the present value of the expected free cash flows, which was determined as follows:

$$PVFCF = FCF_1/(1 + r)^1 + FCF_2/(1 + r)^2 + \ldots + FCF_n/(1 + r)^n$$

In which:

$PVFCF$	=	*Present value of free cash flows;*
FCF	=	*Free cash flow;*
r	=	*Discount rate; and*
n	=	*Number of year of projections.*

Comparable Companies

For the purpose of the Valuation, the Valuer referred to the information in relation to public companies whose shares are listed on the Stock Exchange and are considered to be comparable to the Disposal Company (the "**Comparable Company(ies)**").

Based on the comparability of the overall industry sector and geographical location, the Valuer selected a number of Comparable Companies that meet the following criteria in the Valuation:

1. the principal activities of the Comparable Companies are located in Hong Kong;

2. the Comparable Companies are principally engaged in the provision of IT infrastructure services and the related operation;

3. shares of the Comparable Companies are listed on a major stock exchange and are being actively traded in a reasonable period of time; and

4. detailed financial and operational information in respect of the Comparable Companies are available at publicly available sources.

KEY PARAMETERS USED IN THE VALUATION

In gist, the market value of the Sales Shares was derived from the present value of the Disposal Company's expected free cash flows in future years, further discounted by various specific factors, including the discount for lack of marketability and the discount for lack of control.

Below are the key parameters used in the Valuation, along with a brief explanation of each:

Discount Rate

The discount rate needs to be determined before the present value of the expected cash flows of the Disposal Company can be calculated. In the Valuation, the Weighted Average Cost of Capital (the "**WACC**") was adopted as the discount rate, which is the required return on the capital investment of a company. The cost of capital will be different for each source of capital and class of securities a company has, reflecting the different risks. The WACC is the weighted average of the costs of each of the different types of capital, and the weights are proportion of the company's capital that comes from each source. Under the income approach, only some financial characteristics (e.g. the beta coefficient and capital structure) of the comparable companies were referenced to in deriving the discount rate (i.e. the WACC). The discount rate has also considered other parameters unrelated to the comparable companies.

In the Valuation, the WACC was computed using the following formula:

$$WACC = R_e\ (E/V) + R_d\ (D/V)\ (1 - T_c)$$

In which:

$WACC$	=	*Weighted average cost of capital;*
R_e	=	*Cost of equity;*
R_d	=	*Cost of debt;*
E	=	*Value of the firm's equity;*
D	=	*Value of the firm's debt;*
V	=	*Sum of the values of the firm's equity and debt; and*
T_c	=	*Corporate tax rate.*

Terminal Value

In a DCF model, cash flows are projected for each year into the future for a certain number of years, after which it becomes difficult to forecast unique annual cash flows with reasonable accuracy. Instead, a terminal value is used to represent the discounted value of all subsequent cash flows.

The terminal value in the Valuation was computed using the following formula:

$TV_t = CF_{t+1}/(r\text{-}g)$

In which:

TV_t	=	*Terminal value at the final year of projection;*
CF_t+1	=	*Cash flow in one year after the final year of projection;*
r	=	*Discount rate; and*
g	=	*Long-term growth rate.*

The long-term growth rate represents the rate at which the cash flow will grow perpetually after the final year of projection. After determining the terminal value at the final year of projection, the result was then discounted to the date of valuation to derive the present value of the terminal value.

Discount for lack of marketability

The discount for lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability. The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell.

The discount for lack of marketability reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

As the Disposal Company is unlikely to undergo public offering and its shares are unlikely to be listed in any major stock exchange or be marketable in any over-the-counter market in the near future, a discount for lack of marketability has been adopted in the valuation.

Discount for lack of control

As the number of the Sale Shares represents approximately 45.00% of the issued share capital of the Disposal Company, indicating minority interest, a discount for lack of control has been adopted in the valuation. The discount for lack of control is a downward adjustment to the value of an investment to reflect its lack of controlling interest.

The discount for lack of control is computed using the following formula:

Discount for lack of control = 1 – 1 / (1 + Control premium)

The control premium represents the additional consideration an investor is willing to pay above the minority equity value to acquire a controlling interest, expressed as a percentage of the minority equity value.

SENSITIVITY ANALYSIS OF CHANGE IN KEY INPUTS ON THE EQUITY VALUE OF 45% EQUITY INTEREST IN THE DISPOSAL COMPANY

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

1. Change in Discount Rate (DR):

Scenario	Discount Rate	Equity Value (EV)	Change in EV	Change in EV%
DR+2%	13.46%	6,380,000	–1,480,000	–18.83%
DR+1%	12.46%	7,040,000	–820,000	–10.43%
Base	11.46%	7,860,000	0	0.00%
DR–1%	10.46%	8,890,000	1,030,000	13.10%
DR–2%	9.46%	10,210,000	2,350,000	29.90%

2. Change in Long Term Growth Rate (LTGR):

Scenario	LTG Rate	Equity Value (EV)	Change in EV	Change in EV%
LTG+1%	3.40%	9,000,000	1,140,000	14.50%
LTG+0.5%	2.90%	8,400,000	540,000	6.87%
Base	2.40%	7,860,000	0	0.00%
LTG–0.5%	1.90%	7,380,000	–480,000	–6.11%
LTG–1%	1.40%	6,950,000	–910,000	–11.58%

VALUATION ASSUMPTIONS

Due to the changing economic and market conditions, the following major assumptions were adopted in the Valuation to support the Valuer's concluded opinion of the value of the Sale Shares:

General market assumptions:

(i) there will be no material change in the existing political, legal, fiscal, technological, economic and market conditions in the jurisdiction where the Disposal Company is currently or will be situated;

(ii) there will be no material change in the taxation laws and regulations in the jurisdiction where the Disposal Company is currently or will be situated, that the tax rates will remain unchanged and that all applicable laws and regulations will be complied with;

(iii) the market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;

(iv) the supply and demand, both domestically and internationally, of the products and/or services of the Disposal Company or similar products and/or services will not differ materially from those of present or expected;

(v) the market prices and the relevant costs, both domestically and internationally, of the products and/or services of the Disposal Company or similar products and/or services will not differ materially from those of present or expected;

(vi) the products and/or services of the Disposal Company or similar products and/or services are marketable and liquid, that there are active markets for the exchange of the products and/or services of the Disposal Company or similar products and/or services; and

(vii) the market data, industry information and statistical figures obtained from publicly available sources are true and accurate.

Specific assumptions:

(i) all licenses, permits, certificates and consents issued by any local, provincial or national government or other authorised entity or organisation that will affect the operation of the Disposal Company have been obtained or can be obtained upon request with an immaterial cost;

(ii) the core operation of the Disposal Company will not differ materially from those of present or expected;

(iii) the financial and operational information in respect of the Disposal Company have been prepared on a reasonable basis that have been arrived at after due and careful consideration by the senior management of the Company;

(iv) the Disposal Company currently has, or will have, adequate human capital and capacity required for the production and/or provision of the products and/or services of the Disposal Company, and the required human capital and capacity will be acquired in a timely manner that will not affect the operation of the Disposal Company;

(v) the Disposal Company has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;

(vi) the senior management of the Disposal Company will implement only those prospective financial and operational strategies that will maximise the efficiency of the operation of the Disposal Company;

(vii) the senior management of the Disposal Company has sufficient knowledge and experience in respect of the operation of the Disposal Company, and the turnover of any director, management or key person will not affect the operation of the Disposal Company;

(viii) the senior management of the Disposal Company has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any human disruption will not affect the operation of the Disposal Company; and

(ix) the senior management of the Disposal Company has adopted reasonable and appropriate contingency measures against any natural disaster such as fire, flood and hurricane, and the occurrence of any natural disaster will not affect the operation of the Disposal Company.

Key input and assumptions underlying the financial projection:

The revenue growth rate was determined with reference to the long term growth rate. The long term growth rate of 2.4% is referenced to the average inflation rate forecast of Hong Kong published by the International Monetary Fund.

The projected gross profit margin of approximately 61% and Earnings Before Interest and Tax (EBIT) margin of approximately 23% is determined with reference to the respective average historical margin of the Disposal Company in the years from 2021–2023.

IDENTITY AND INDEPENDENCE OF VALUER

BMI Appraisals Limited is a reputable and qualified valuer with extensive experiences in providing valuation & consultancy services for all types of properties, plant, machinery and equipment, business interest, equity capital and intangible asset to clients worldwide relating to initial public offering (IPO), public documentation, financial reporting, mergers and acquisitions, corporate financing, taxation, liquidation and litigation.

The Valuer confirmed that its directors or employees are independent of and unconnected with any directors, chief executive, substantial shareholders of the Company, the Disposal Company or their respective associates.

THE NATURE AND SOURCE OF INFORMATION RELIED UPON

The Valuer has been furnished with the financial information from 2021 to the date of valuation and operational information in respect of the Disposed Company provided by the senior management of the Company.

The Valuer has no reason to doubt the truth and accuracy of the information provided to them, and the Valuer has been confirmed by the senior management of the Company that no material facts have been omitted from the information provided to them.

Apart from the information provided by the senior management of the Company, the Valuer also obtained market data, industry information and statistical figures from publicly available sources.

This supplemental announcement is supplemental to and should be read in conjunction with the Announcement. All other information and content set out in the Announcement remain unchanged and shall continue to be valid for all purposes.

By Order of the Board
Amuse Group Holding Limited
Li Wai Keung
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 25 October 2024

As at the date of this announcement, the Board comprises Mr. Li Wai Keung, Mr. To Hoi Pan and Ms. Lee Kwai Fong as executive Directors; Mr. Chu Wai Tak as non-executive Director; and Mr. Yu Pui Hang, Ms. Chow Chi Ling Janice, and Mr. Tung Man as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 this announcement 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 herein or this announcement misleading.

This announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and on the "Latest Company Announcements" page for at least seven days from the date of its posting and the Company's website at www.amusegroupholding.com.