MICROWARE

Microware Group Limited
美高域集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1985)

SUPPLEMENTAL ANNOUNCEMENT

DISCLOSEABLE TRANSACTION IN RELATION TO SUBSCRIPTIONS OF SHARES IN THE TARGET COMPANY

Reference is made to the announcement (the "**Announcement**") of Microware Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 29 August 2024 in relation to the Subscriptions of Subscription Shares in the Target Company. Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

The Board wishes to provide the Shareholders and potential investors of the Company with additional information in relation to (i) the basis of the consideration of the Subscriptions, and (ii) the financial information of the Target Company.

VALUATION OF THE TARGET COMPANY

As disclosed in the Announcement, the consideration under Subscription I and Subscription II were RMB35 million and RMB15 million, respectively, which was determined and agreed between the parties after arm's length negotiations and taking into account, among other things, a valuation report prepared by an independent qualified valuer.

According to the valuation report (the "**Valuation Report**") prepared by an independent qualified valuer (the "**Valuer**") under the market approach (the "**Valuation**"), the appraised value of the entire shareholders' interest of the Target Company was RMB20,042 million (rounded to nearest million) as at 31 December 2023 (the "**Benchmark Date**").

Basis of Using the Market Approach for Valuation

Pursuant to the Valuation Report, the Valuation was conducted on a market value basis. For the purpose of selecting the most appropriate valuation approach, the Valuer has considered the purpose of the Valuation, the basis of value, as well as the availability and reliability of information to perform an analysis. The relative advantages and disadvantages of each approach in the context of the nature and circumstances of the Target Company have also been considered.

The Target Company belongs to the software and information technology services industry, and the proportion of physical assets is relatively small. Therefore, the asset-based approach was not suitable.

Considering that the latest pipeline projects in the future profit forecasts of the Target Company were still in the stages of business opportunity reporting, project clarification, project review and planned contracting, there were uncertainties regarding whether the projects can be materialised, executed, settled, audited and collected. Such factors need to be validated by the market. The ability of the Target Company to secure product orders at the amount as expected by its management, to achieve the anticipated gross profit levels, and to capture the corresponding market share remained uncertain. Therefore, the valuation result under the income approach was not adopted.

According to the Valuation Report, although it was difficult for the market approach to offset the impact of the volatility of the market and industry, and there were certain differences between the Target Company and comparable listed companies in specific segments and asset structures, the Valuer considered that the market approach can reflect the investment preferences of capital market investors in the industry. Compared to other valuation approaches, the parameters derived from the market approach are more objective and more readily accepted by market investors. According to the Valuation Report, there were publicly listed companies in the market that were similar to the Target Company in terms of business scope, scale, and development stage. The Valuer has therefore adopted the result by using the market approach.

Market Approach

There are many publicly listed companies in the software, hardware, and services industry. In the Valuation, the value of the entire shareholders' interest of the Target Company was assessed by using the comparable company analysis method, based on the adequacy and reliability of the operating and financial data obtained from comparable companies, as well as the availability of a sufficient number of comparable companies.

Based on the basic situation of the Target Company, the following analysis of the Target Company as compared with comparable listed companies is conducted:

(1) analysed the basic situation of the Target Company, including its industry, business scope, scale, and financial status.

(2) identified comparable listed companies, adopting the following criteria:

(i) the comparable companies which have issued A Shares for more than two years (as at 31 December 2023, the Target Company has not yet decided the listing location), selected by the Valuer based on their professional judgement for the purpose of the Valuation;

(ii) the business structure, operating model, industry, and characteristics of the comparable companies should be the same as or similar to those of the Target Company.

The Valuer has adopted five listed companies with business nature and operations similar to those of the Target Company as comparable companies for the Valuation. The Valuer confirmed that these five comparable companies are all A-share listed companies selected based on the above criteria. The details of the five comparable companies are set out below:

Comparable Companies	**Year of listing**	**Brief description of business**	**Total market value** *(RMB'000)*
Montage Technology Co., Ltd. (瀾起科技股份有限公司)	2019	Data processing in the AI field and interconnect chip design	66,912,380
ArcSoft Corporation Limited (虹軟科技股份有限公司)	2019	CV algorithm service and solution provider	16,662,240
Chengdu Information Technology of The Chinese Academy of Sciences Co., Ltd. (中科院成都信息技術股份有限公司)	2017	Internet of Things (IoT) technology service provider	8,885,660
Beijing E-hualu Information Technology Co., Ltd. (北京易華錄信息技術股份有限公司)	2011	Digital technology service provider	22,746,950
Maxvision Technology Corp. (盛視科技股份有限公司)	2020	Intelligent operating system technology provider	8,841,990

(3) analysed and compared the main financial and operational indicators of the Target Company and the comparable companies, including various metrics such as sales scale (including sales revenue), profitability (including gross profit margin), and development capability (including compound growth rate of sales revenue over the past five years and investment in R&D).

(4) selected the appropriate value ratio, which is the price-to-sale ("**P/S**") ratio, for the comparable listed companies, and appropriate methods are used to correct and adjust them, and thereby the value ratio of the Target Company is estimated (the details of which are explained below).

(5) based on the value ratios of the Target Company, and considering the lack of market liquidity discounts (given that the comparable companies selected are listed companies, while the Target Company has not yet been listed), to ultimately determine the equity value of the Target

Company using the market comparison method as the basis for the benchmark price with the non-liquidity reduction factor considered. Due to the Target Company's clear listing plan, the Valuer referred to the "Valuation Guidelines for Securities Investment Fund Investments in Restricted Stocks (Trial)" and used the Asian options model to calculate the lack of marketability discount ("**LoMD**") for the Target Company, which was 18.35%.

The Valuer selected the price-to-sales (P/S) model to compare the corresponding ratios of publicly listed companies among other possible ratios, including price-to-earnings ("**P/E**") ratio, price-to-book ("**P/B**") ratio and enterprise value-to-earnings before interest, taxes, depreciation and amortization ("**EV/EBITA**"), taking into account, among others, the business nature of the Target Company, which is principally engaged in full-stack AI and Internet of Things ("**AIoT**") products including software, hardware and services to enterprises, public administrators and other participants in the public realm AIoT market.

P/E ratio and EV/EBITA ratio were not selected as the Target Company has not made profit and P/B ratio was also not used as P/B ratio is mainly used to assess companies in industries such as finance or real estate or companies in traditional manufacturing industries with a large number of real assets, and is unable to fully reflect the shareholder's equity as the Target Company possess intangible assets such as human resources, R&D capabilities and rich clientele, which are not reflected in the balance sheet.

Based on the adjusted P/S ratio, the Valuer selected P/S ratios with a fluctuation of 5% above and below the median as market multiples for the high-end and low-end of the market approach, respectively, which were ranged from 16.43x to 20.00x.

The adjustment factor and the adjusted P/S of comparable companies are listed as follows:

Comparable Companies	**Original P/S**	**Adjustment factor**	**Adjusted P/S**
Montage Technology Co., Ltd. (瀾起科技股份有限公司)	26.77x	0.94	25.26x
ArcSoft Corporation Limited (虹軟科技股份有限公司)	22.00x	0.99	21.79x
Chengdu Information Technology of The Chinese Academy of Sciences Co., Ltd. (中科院成都信息技術股份有限公司)	14.18x	1.03	14.64x
Beijing E-hualu Information Technology Co., Ltd. (北京易華錄信息技術股份有限公司)	35.20x	1.08	38.19x
Maxvision Technology Corp. (盛視科技股份有限公司)	4.85x	0.93	4.53x

The P/S statistics with P/S ratios before and after adjustment, with a fluctuation of 5% above and below median, are listed as follows:

P/S statistics	**P/S before adjustment**	**P/S after adjustment**
Highest	35.20x	38.19x
5% above median	20.04x	20.00x
Median	18.09x	18.21x
Average	18.66x	18.86x
5% below median	16.14x	16.43x
Lowest	4.85x	4.53x

The adjustment made to the Target Company and the comparable companies are mainly calculated comprehensively on the basis of the financial indicators, such as business scale (total assets and operating income), profitability (net profit margin and return on total assets), asset quality (total asset turnover and accounts receivable turnover), debt risk (asset-liability ratio and current ratio), and operating growth (income growth rate, capital preservation and appreciation rate).

The Valuer also took into account the capital injection of the Target Company and confirmed that the Subscription price is in line with that of the other investors of the Target Company in the same period. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, such other investors are third parties independent of the Company. Adjustments are made for the differences in influencing indicators to derive the P/S ratio of the Target Company, which was used to calculate the total equity value of the Target Company. The formula is as follows:

Total equity value of shareholders = operating income of the Target Company x P/S of the Target Company x (1 - LoMD) x (1 + control premium rate) + (cash and cash equivalents and net value of non-operating assets - interest-bearing debt as at the Benchmark Date) – minority interests

Operating income of the Target Company: RMB1,128.98 million
P/S range of the Target Company: 16.43x to 20.00x
LoMD: 18.35%
Control premium rate: 15.12%
Cash and cash equivalents: RMB233.10 million
Net value of non-operating assets: RMB1,786.90 million
Interest-bearing debt as at the Benchmark Date: RMB1,279.03 million
Minority interests: RMB28.51 million

RMB20,042 million is the median of the market valuation for the highest and lowest of the total equity value of shareholders of the Target Company.

Major Assumptions Adopted in the Valuation

The principal assumptions of the Valuation are as follows:

I. *Basic Assumptions*

(i) *Going Concern Assumption*

This assumed that Target Company's assets will continue to be used for their original intended purposes and in the same manner after the appraisal objectives are achieved, allowing the Target Company to continue operating its existing products or similar products. The Target Company's supply and sales model, as well as the distribution of interests with related enterprises, will remain unchanged.

(ii) *Public Market Assumption*

This assumed that the assets can be freely bought and sold in a fully competitive market, with their prices determined by the value judgments of independent buyers and sellers under certain market supply conditions.

A public market refers to a fully competitive market with numerous buyers and sellers. In such market, buyers and sellers have equal standing, with each having the opportunity and time to access sufficient market information. The transactions between buyers and sellers are conducted voluntarily and rationally, rather than under coercive or unrestricted conditions.

(iii) *Transaction Assumption*

The value of any asset is inherently tied to transactions. Regardless of whether the appraised asset is involved in transactions related to the appraisal objectives, it is assumed that the appraised entity is in the process of a transaction. The Valuer will simulate the market based on the transaction conditions of the asset to conduct the valuation.

II. *General Assumptions*

(i) The industry in which the Target Company operates will maintain a stable development trend, and there will be no significant changes in the current national and local laws, regulations, systems, and socio-political and economic policies.

(ii) The impact of inflation on the appraisal results will not be considered.

(iii) Interest rates and exchange rates will remain at their current levels without significant changes.

(iv) There will be no significant adverse effects caused by other unforeseeable and irresistible human factors.

(v) Future potential liabilities related to mortgages, guarantees, and the impact of special transaction methods that may require additional payments will not be considered in the appraisal conclusions.

III. Specific Assumptions

(i) The assets of the Target Company will not change in purpose after the Benchmark Date and will continue to be used.

(ii) The Target Company will continue to operate according to its existing business model after the appraisal objectives are achieved, maintaining its existing products or similar products, with the supply and sales model and the distribution of interests with related enterprises remaining unchanged.

(iii) The current and future operators of the Target Company are responsible and capable of steadily advancing the Target Company's development plans, striving to achieve the anticipated operational situation.

(iv) The Target Company complies with relevant laws and regulations, and there will be no significant violations that could impact the Target Company's development and profitability.

(v) The accounting policies used in the historical financial data provided by the Target Company are fundamentally consistent with the accounting policies and methods used for revenue forecasts in significant respects.

(vi) Cash flows from income and expenses are evenly distributed each year.

(vii) The Target Company will be able to continuously obtain recognition as a high-tech enterprise and enjoy a 15% income tax preferential policy in the future.

(viii) The production and operating premises and equipment rented by the Target Company can be renewed normally and continue operating after the lease period expires.

(ix) The Target Company will be able to raise the necessary funds based on operational needs and that financing matters will not affect the Target Company's operations.

(x) The core team of the Target Company will continue to hold positions in the Target Company in the coming years and will not engage in competing businesses outside of the Target Company.

(xi) The relevant technologies and patents of the Target Company do not involve the issues of disputes over technology patents or the infringement of trade secrets.

The Board's View on the Fairness and Reasonableness of the Consideration

Based on the Valuation result, the entire shareholders' interest of the Target Company was RMB20,042 million. The value of 0.24% of the entire shareholders' interest of the Target Company equals to RMB48.1 million, which is approximate to the aggregate consideration of RMB50 million under the Subscriptions (i.e. aggregate consideration of RMB35 million under Subscription I and RMB15 million under Subscription II).

Considering that (i) the Valuation provides an objective and unbiased assessment of the value of the Target Company which ensures the fairness for parties involved, as it takes into account the market value and financial performance of the Target Company; (ii) the Valuation takes into consideration the comparable companies in the market. As at the Benchmark Date of 31 December 2023, the Target Company has not yet determined its listing location, it was reasonable for the Valuer to use A-share listed companies as comparable companies based on their professional judgment. Moreover, during the same period, other investors subscribed for the shares of the Target Company based on the same valuation; (iii) the Board has cautiously reviewed the relevant basis, assumptions and methodology of the Valuation, the Board (including the independent non-executive Directors) is of the view that the Valuation is a reasonable estimate of the equity interest in the Target Company and that adopting the results of the Valuation as basis for forming the consideration is suitable and in the interest of the Company and the Shareholders as a whole.

FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is an extract of the audited consolidated financial information of the Target Company and its subsidiaries for the two years ended 31 December 2023 and the unaudited consolidated financial information for the six months ended 30 June 2024 respectively:

	For the year ended 31 December		**For the six months ended 30 June**
	2022	**2023**	**2024**
	(audited)	**(audited)**	**(unaudited)**
	RMB'000	*RMB'000*	*RMB'000*
Loss before tax	(2,387,272)	(802,009)	(1,127,499)
Loss for the year/period	(2,387,361)	(802,648)	(1,128,162)
Adjusted net loss (non-IFRS measure)	(982,968)	(600,021)	(355,678)

As at 30 June 2024, the unaudited consolidated net liabilities of the Target Company was approximately RMB8,310.45 million. The Target Company recorded net liabilities as at 30 June 2024, primarily due to the impact of its shares with preferential rights, which amounted to approximately RMB7,931.94 million as at 30 June 2024.

Saved as disclosed above, all other information as set out in the Announcement remains unchanged and shall continue to be valid for all purposes. This announcement is supplemental to and should be read in conjunction with the Announcement.

On behalf of the Board
Microware Group Limited
Wang Guangbo
Chairman and executive Director

Hong Kong, 28 October 2024

As at the date of this announcement, the executive Directors are Mr. Wang Guangbo and Mr. Huang Tianlei, the non-executive Director is Mr. Wang Zhi and the independent non-executive Directors are Mr. Dai Bin, Mr. Xu Jianwen and Ms. Lan Jia.