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HANG SANG (SIU PO) INTERNATIONAL HOLDING COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3626)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 91% EQUITY INTEREST IN THE TARGET COMPANY

Reference is made to the announcement of the Company dated 7 February 2024 in relation to the acquisition of 91% equity interest in the Target Company (the “**Announcement**”). Unless otherwise stated, all the capitalised terms used herein shall have the same meaning as those adopted in the Announcement.

The Board wishes to provide the following supplemental information.

FURTHER DETAILS OF THE VALUATION

In preparing the Valuation, the Valuer adopted the market-based approach and considered price-to-sales, price-to-earnings and price-to-book multiples. The Valuer considered that (i) price-to-book multiples cannot reflect the future earnings and growth potentials of a business enterprise; and (ii) price-to-sales multiples cannot fully capture the cost structure of a business enterprise. After assessing the business nature, operation, financial performance and profitability of the Target Company, the Valuer has adopted price-to-earnings (“**P/E**”) multiples as the Valuer considered it as the most appropriate multiple for the preparation of the Valuation.

The comparable companies were selected with reference to the following selection criteria:

1. The companies are principally engaged in restaurant or café business in catering industry in Hong Kong;
2. The companies are listed on The Stock Exchange of Hong Kong Limited;
3. The companies are profit-making, excluding those with exceptionally low net profit margin in the financial year ended as of or nearest to the Date of Valuation;

4. The companies have sufficient listing and operating histories; and
5. The financial information of the companies is available to the public.

The Valuer observed that there is limited information available regarding transactions involving private companies operating restaurant and/or café with operation history of around or within 1 year. Considering the lack of available information on private company transactions and absence of listed companies with short operating histories, it was considered most appropriate to rely on listed companies with sufficient listing and operating histories as comparable companies for valuation purposes. Such decision was supported by the fact that long listing history ensures more stable and less volatile stock prices, which can mitigate the potential for atypical stock price fluctuations that may be observed in those companies with short listing history. Therefore, the Valuer has made reference to the P/E multiples of those comparable listed companies is exhaustive based on the selection by the Valuer. The Board considers that the comparable companies to be appropriate.

Below are the comparable listed companies selected by the Valuer:

Company name	Stock code	Business description	P/E multiples
LH Group Limited	1978.HK	Engaged as full-service restaurants operator serving Asian cuisine including Japanese, Korean, Cantonese and Shanghainese cuisine in Hong Kong.	8.38
Tam Jai International Co. Limited	2217.HK	Engaged in the operation of restaurants under TamJai and SamGor brands.	15.05
Dragon King Group Holdings Limited	8493.HK	Engaged in the operation and management of restaurants which operates Cantonese full-service restaurants.	4.62
Tai Hing Group Holdings Limited	6811.HK	Engaged in the operation and management of restaurants and sale of food products.	18.2
Tsui Wah Holdings Limited	1314.HK	Engaged in the restaurant operation and the sale of food.	4.2
			Median: 8.38

Taking into account the fact that the market prices of those comparables obtained are on the basis of minority stake, a control premium of 24.90% was applied to the equity value of the Target Company to reflect the higher marketability of a controlling interest as compared to a minority interest, as the acquisition involves obtaining controlling stake in the Target Company. The Valuer has made reference to the FactSet BVR Control Premium Study (3rd Quarter 2023), which was published by Business Valuation Resources, LLC. The premium is the median equity control premium observed in 87 transactions during the 3rd quarter of 2023.

A discount for lack of marketability of 20.50% was applied by the Valuer to account for the illiquidity of the equity interest of the Target Company with reference to the result of the restricted stock study published in “Stout Restricted Stock Study 2023” by Stout Risius Ross, LLC This discount represents the average transaction discount observed from a total of 776 transactions during the period between 1980 and 2023.

The Valuer adopted the following key specific assumptions in arriving at the Valuation:

- The unaudited consolidated financial statements of the Target Company as at 31 August 2023 could reasonably represent its financial position since the audited financial statements of the Target Company as at 31 August 2023 were not available.
- As advised by the Company’s management, amount due to holding company of HK\$250,542, provision for profit tax of HK\$262,257 and provision for reinstatement of HK\$300,000 as at 31 August 2023 were considered as non-operating liabilities.
- Due to insufficient operation data of the Target Company, the comparable companies were identified only based on the financial information available to the Valuer.
- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry with minimal costs.
- There will be sufficient supply of technical staff in the industries in which the Target Company operates, and the Target Company will retain competent management, key personnel and technical staff to support its ongoing operations and developments.
- There will be no major change in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.
- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company.
- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing.

Calculation of the Valuation is set out below:

Net profit for the period from the 18 August 2022 to 31 August 2023	HK\$1,327,181
P/E multiple adopted	(rounding) 8.38x
Market value of the business enterprise before adjustments in control premium	HK\$11,119,625
Control premium	24.90%
Market value of the business enterprise before adjustments in non-operating assets/ non-operating liabilities (net)	HK\$13,888,411
Adjustment:	
Net non-operating liabilities	HK\$(812,799)
Market value of the business enterprise before adjustments in marketability discount	HK\$13,075,612
Marketability discount	20.50%
Market value of 100% equity interest in the Target Company	HK\$10,395,112
Percentage of equity interest sought	91%
Market value of 91% equity interest in the Target Company (Rounded)	HK\$9,460,000

The Board reviewed and analyzed the assumptions and methodology of the Valuation and enquired with the Valuer and the Company's management about the valuation and its assumptions and methodology. It included but not limited to the approach adopted, price-to-earnings multiples for the preparation of the Valuation, comparable listed companies selected by the Valuer, key specific assumption in arriving at the Valuation and the calculation of the Valuation. Therefore, the Board considered the assumptions and methodology of the Valuation to be fair and reasonable.

MANAGEMENT OF THE TARGET COMPANY

While the Vendor shall be responsible for the daily operation of the business of the Target Company, the Board and the Group's senior management will take active role in managing the Target Company as set out below:

- (a) The Board shall formulate strategic plan and business objective of the Target Company and direct the Vendor to implement the same when the Vendor carries out daily operation of the Target Company's business.
- (b) The Vendor shall provide the annual budget of the Target Company for consideration and approval by the Purchaser. The Board will, through the Purchaser, review, adjust (if necessary) and approve the annual budget of the Target Company.

- (c) The Purchaser shall be responsible for the accounts and finance of the Target Company. In addition, the authorized signatories of the cheques and the bank accounts of the Target Company shall be decided by the Purchaser. The Board will, through the Purchaser, control the accounts and finance of the Target Company.
- (d) The Group's General Manager shall assist the Board in overseeing the business operation of the Target Company by monitoring the overall operation of Target Company and report to the Board. She will also assist the Target Company in procurement and maintaining relationships with suppliers to optimize pricing and stable supply.
- (e) The Group's Chief Financial Officer shall (i) obtain the Target Company's operational data through a real-time point-of-sales system; (ii) assist in the preparation of the Target Company's management accounts; (iii) monitor the Target Company's financial performance; and (iv) report the above to the Board.

FURTHER DETAILS OF THE PROFIT GUARANTEE

The guaranteed profit is subject to the following adjustments:

- (a) any revaluation of assets shall be disregarded;
- (b) any revenue generated outside the ordinary course of business of the Target Company shall be disregarded;
- (c) only profits and losses derived from the ordinary course of business of the Target Company shall be included; and
- (d) all receivables which have been outstanding for a period of 12 months or over shall be written off.

The Shortfall Compensation shall be paid by the Vendor to the Purchaser by way of cashier order or telegraphic transfer within 1 month after the date on which the Accumulated Net Profit for the relevant Profit Guaranteed Period is determined.

SPECIAL DIVIDENDS

As the Vendor shall be responsible for the daily operation of the business of the Target Company, the special dividends provision (i.e. if the net profit after taxation of the Target Company for specific periods is more than relevant threshold point, the Target Company shall declare special dividends to the Vendor and the Purchaser in the ratio of 60% and 40% respectively on the amount which exceeds the relevant threshold point) will provide an incentive for the Vendor to improve the operational and financial performance of the Target Company.

Having also considered the following:

- (a) provided that the Target Company has sufficient working capital and subject to the declaration of the special dividends above, dividends shall be declared by the Target Company on a quarterly basis in the respective shareholding ratio of the Vendor and the Purchaser in the Target Company; and
- (b) the thresholds under the special dividends provision are 10% higher than the guaranteed profit for the corresponding periods,

the Board considers that the special dividends provision is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

INTENTION ON EXISTING BUSINESSES

The Company has no intention to downsize and/or dispose of its manufacturing and sale of apparel labels and packaging printing products business in the next 12 months.

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.

By order of the Board
Hang Sang (Siu Po) International Holding Company Limited
Fung Man Wai Samson
Chairman, chief executive officer and executive director

Hong Kong, 22 March 2024

As at the date of this announcement, the executive Directors of the Company are Mr Fung Man Wai Samson, Mr Fung Man Kam and Mr Fung Kar Chue Alexander, and the independent non-executive Directors of the Company are Dr Loke Yu, Ms Fung Po Yee and Dr Sung Ting Yee.