MEXAN LIMITED
茂盛控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 22)

SUPPLEMENTAL INFORMATION OF DISCLOSEABLE TRANSACTION ACQUISITION OF THE TARGET COMPANY

Reference is made to the announcements of the Company dated 9 March 2022 and 8 April 2022 (the "**Announcements**") in relation to the Company's acquisition of the Target Company. Unless the context requires otherwise, terms defined in the Announcements shall have the same meanings when used herein.

The Board wishes to provide the following additional information in respect of the Acquisition to the Shareholders and potential investors.

Basis of Consideration

As mentioned in the Announcements and subject to the adjustments and the terms disclosed therein, the Tranche 2 Consideration payable for the sale and purchase of the Tranche 2 Sale Shares (representing 49% of the issued share capital of the Target Company) and the assignment of the Tranche 2 Sale Loan (representing the Sale Loan as at the Tranche 2 Completion Date) shall be calculated in accordance with the formula below:

Tranche 2 Consideration = Average Net Profit After Tax x 6 x 49%

* *For identification purposes only*

In formulating the Tranche 2 Consideration, the Vendor and the Purchaser after arm's length negotiations agreed that since the Target Company was newly incorporated, its value should be based on its actual profitability and a price-to-earnings ratio ("**P/E ratio**").

The selection of the approach to estimate the value of the Target Company was subject to a number of factors, including the availability of the information to the Directors, the deal structure and the unique situation of the Target Company.

Certain valuation approaches such as market approach, sales comparison approach, cost approach and discounted cash flow method had been considered by the Directors as inapplicable or inappropriate for valuing the Target Company, as (i) the necessary information for adopting some of such approaches was not available to the Directors; (ii) there were factors and uncertainty such as market condition and macro-economy which rendered such approach inapplicable; or (iii) the approach failed to take into account the Target Company's potential profitability.

As a newly incorporated company which had not generated any revenue as at the date of the Sale and Purchase Agreement, the parties considered that it would only be fair and appropriate to base the Tranche 2 Consideration on the average actual profit of the Target Company over the upcoming three years. Such approach would (i) reflect the results of the synergy between Mr. Woo's team and the Company's management team in running the Target Company; (ii) provide sufficient incentive for Mr. Woo to development the Target Company's business; and (iii) align the value of the Target Company with the Market Comparables by using the P/E ratio.

Thus, after considering a number of different approaches to value the Target Company and to determine the Consideration, the Directors considered that the present approach used in the Sale and Purchase Agreement was the most appropriate approach of valuation for the Acquisition.

The P/E ratio

In determining the applicable P/E ratio for calculation of the Tranche 2 Consideration during the negotiations with the Vendor, the Directors conducted research on the P/E ratios of 8 and 6 companies (the "**Market Comparables**") listed on the main board and GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") respectively, whose businesses are the same or substantially similar to that of the Target Company, since the financial information of private companies operating in the same industry as the Target Company is not available to the public.

After taking out those Market Comparables which have extreme P/E ratios (one is listed on the main board of the Stock Exchange and another is listed on GEM), the range of P/E ratios of the Market Comparables range from 4.25 times to 26.53 times, whereas the average P/E ratio is 13.3 times. Given that the Target Company is a newly incorporated company without a listing status, the Directors are of the view that it is fair and reasonable and in the best interest of the Company and its shareholders as a whole to set the P/E ratio at 6 times, which is lower than the average P/E ratio of the Market Comparables and is also the result of arm's length negotiations between the Vendor and the Purchaser.

Mr. Woo and his team

The Target Company has signed an employment contract with Mr. Woo as its managing director for a term of 3 years commencing from the Tranche 1 Completion Date (subject to usual rights of termination exercisable by the Target Company) and has also employed 16 experienced staffs who worked along with Mr. Woo in the past.

Mr. Woo started his career in the supply of building materials and provision of fitting out and interior design industry in 1979 and have worked for a number of distinguished market players in the industry. He served as an executive director of a company listed on the Stock Exchange (whose primary businesses were the development, production and sale of building materials and engineering equipment) from 1993 to 2000 and from 2002 to 2004, and he was responsible for the operations of its building materials business.

Mr. Woo then established his own business in 2004 and continued his career in the building materials and provision of fitting out and interior design services industry.

With the extensive experience in the industry and business connections of Mr. Woo, as well as his management skills acquainted during his career, the Directors believe that Mr. Woo and his team members will bring invaluable experience, know-how and business connections to the Target Company and the cooperation between Mr. Woo's team and the Company will create synergy effect to enable the Group to develop a successful business in supply of building materials and provision of fitting out and interior design works.

Under (i) the employment contract signed between the Target Company and Mr. Woo and (ii) the Shareholders Agreement, Mr. Woo has undertaken to the Target Company and the Purchaser that, save for certain existing orders and jobs, he and the companies owned by him ("**Mr. Woo's Companies**") shall not carry on any business which competes with the Target Company and they shall channel all future business opportunities of Mr. Woo's Companies to the Target Company.

For such contracts which have been or may be granted to Mr. Woo's Companies as a result of tenders submitted or negotiations by Mr. Woo's Companies before the Tranche 1 Completion, Mr. Woo and Mr. Woo's Companies are restricted from handling such contracts. But on a case-by-case basis to be decided by the Target Company, Mr. Woo's Companies can novate or sub-contract such contracts to the Target Company. Further announcement(s) will be published by the Company if the aforesaid arrangement(s) are required to be disclosed by way of announcement under the Listing Rules.

Business performance of the Target Company after Tranche 1 Completion

Since the Tranche 1 Completion which took place on 8 April 2022 and as at the date of this announcement, the Target Company has already signed contracts with 9 different customers with an aggregate contract sum of about HK$1.5 million.

By Order of the Board
MEXAN LIMITED
Lun Yiu Kay Edwin
Chairman

Hong Kong, 26 May 2022

As at the date of this announcement, the executive Directors are Mr. Lun Yiu Kay Edwin (Chairman) and Mr. Ng Tze Ho Joseph and the independent non-executive Directors are Dr. Tse Kwing Chuen, Mr. Ng Hung Sui Kenneth and Mr. Lau Shu Kan.