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HUISEN GROUP

Huisen Household International Group Limited
匯森家居國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2127)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY

Financial Adviser to the Company

雋匯國際金融有限公司
Jun Hui International Finance Limited

Reference is made to the announcement of Huisen Household International Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 12 May 2023 in relation to acquisition of 100% equity interest in the Target Company (the "**Announcement**"). Unless defined otherwise, all capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Board wishes to provide the Shareholders and potential investors of the Company with additional information relating to the Acquisition as follows:

THE SALE AND PURCHASE AGREEMENT

Basis of the Consideration

The Consideration was determined between the Purchaser and the Vendors after arm's length negotiations and on normal commercial terms, taking into account, among others:

(i) the appraised value for 100% equity interest in the Target Company as at 31 December 2022 of approximately RMB234.7 million based on market approach as appraised by the Independent Valuer (the "**Valuation**"). When taking into account the appraised value of the Target Company, the Directors have examined the following: (a) the Independent Valuer is an independent professional valuer engaged by the Company and reviewed its scope of work; (b) the Independent Valuer possesses relevant experience and qualifications to carry out the Valuation; and (c) discussed with the Independent Valuer regarding, among others, the selection of valuation methodology and the basis and assumptions adopted thereto, the reasons and appropriateness of adopting market approach for the Valuation and selection of the comparable companies in the Valuation. The Directors considered that the Consideration of RMB160 million represents a discount of approximately 31.8% of the appraised value, which is favourable to the Company. The Directors are of the view that such discount was mainly because they had considered the appraised value of the Target Company as a market reference to prevent overpricing of the Target Company and adopted a prudent approach regarding the pricing of the Target Company by taking into account, among others, the historical performance of the Target Company and the relatively sluggish market environment since the outbreak of the COVID-19. Accordingly, the Consideration of RMB160 million was agreed after arm's length negotiations between the Purchaser and the Vendors on normal commercial terms having taken into consideration of the abovementioned factors;

(ii) the future prospects of the Target Company. According to the "Outline of the Plan for the Domestic Demand Expansion Strategy (2022−2035)" (《擴大內需戰略規劃綱要(2022−2035年)》) issued by the State Council of the PRC in December 2022, furniture consumption is one of the focus areas in the PRC in the future to boost domestic demand, and therefore the Directors are of the view that business of the Target Company will be benefited from such supportive policies and growing market demand; and

(iii) the reasons for and benefits of the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition" in the Announcement. The Directors considered that the Acquisition could be complementary to the Group's principal business activities and provide synergy to the Group including enhancing its operational efficiency and broadening its customer base and income stream, through utilising the Target Company's expertise on information technology solutions in the furniture industry.

Given the above factors are taken into account by the Directors with due and careful enquiries in the determination of the Consideration, the Directors consider that the Consideration is fair and reasonable.

VALUATION

Major assumptions adopted in the Valuation

The major assumptions of the Valuation are summarised as follows:

- there will be no drastic changes in the existing political, legal, technological, fiscal and economic fields that will adversely affect the general economy and the commercial operations of the Target Company;

- for the Target Company to continue as a going concern, the Target Company will successfully carry out all necessary activities for the development of its business and business operations;

- all relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organisation required to operate in the localities where the Target Company operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and

- key management, competent personnel, and technical staff will be retained to support ongoing operations of the Target Company.

Methodology and multiple approach adopted in the Valuation

The Directors have reviewed the report of the Valuation and discussed with the Independent Valuer regarding, among others, the selection of valuation methodology, the basis and assumptions adopted in the Valuation, and the reasons and appropriateness of adopting market approach and price to earnings ("**P/E**") multiple for the Valuation.

The Directors are advised by the Independent Valuer that, among the three commonly used valuation methods, the market approach is considered to be the most appropriate valuation approach for the Valuation as: (i) it requires fewer subjective assumptions, which are not easily quantified or ascertained than income approach; and (ii) compared to cost approach, the market approach is more likely to reflect the current market expectations over the corresponding industry since the price multiples of comparable companies under the market approach were arrived from market consensus and could capture the potential future development of the Target Company. The Directors agree with the Independent Valuer that the market approach shall be the most appropriate valuation approach for the Valuation.

The Directors are also given to understand from the Independent Valuer that it has considered three commonly used multiples for the Valuation under the market approach, being the P/E multiple, price to book ("**P/B**") multiple and price to sale ("**P/S**") multiple. As advised by the Independent Valuer, when a company operates at its normal earnings level, the use of P/B or P/S multiples may not be an effective measure of the earnings capability of the company as it does not account for the profitability of the business, and fails to reflect the true earnings power and value of the business. Further, P/B multiple is typically applied for valuing asset-based business or company, and P/S multiple is commonly used in the valuation of companies which do not have profits. On the other hand, the Independent Valuer considered that P/E multiple can appropriately reflect the going concern and the growth expectation in relation to the business of the Target Company and earnings shall be considered as the primary determinant of the value of a company. Given the foregoing and that the earnings of the Target Company for the recent financial years reported at its normal earnings level (i.e. without the incurrence of material one-off item), the Directors agree with the Independent Valuer's view that P/B and P/S multiples may not serve as good references for the Valuation, and the use of P/E multiple approach for the Target Company as a profit-making business is fair and reasonable.

Values adopted in the Valuation

To appraise the fair value of the Target Company, the Independent Valuer has adopted the P/E multiple in the Valuation. The adjusted P/E ratio (the "**Adjusted P/E**") of approximately 19.4 times is multiplied by the net profit of the Target Company for the year ended 31 December 2022 of approximately RMB12.1 million to arrive at the appraised value of approximately RMB234.7 million. The Adjusted P/E ratio of approximately 19.4 times is arrived at by (i) taking the average of the P/E ratios of the comparable companies of the Valuation (the "**Comparable Companies**") after adjusting the difference in company scale, profitability, operating capability, risk control and growth capability (collectively, the "**Adjustment Factors**") of approximately 23.9 times (with details of the Adjustment Factors set forth in the section headed "Valuation – details of the Comparable Companies in the Valuation below); (ii) applying the adjustment for discount for lack of marketability of 29.19%, being the mean discount rate with reference to the relevant data sourced from Wind, stock exchanges in the PRC and CVSource; and (iii) applying the adjustment for control premium of 14.90%, being the mean premium rate with reference to the relevant data sourced from Wind, stock exchanges in the PRC and CVSource.

Details of the Comparable Companies in the Valuation

As advised by the Independent Valuer, the most comparable companies as the Target Company in terms of principal business activities, industry and geographical location have been identified and selected, the selection criteria of which are set out below:

- the comparable companies shall be listed in Hong Kong or the PRC;

- the comparable companies shall be in the same industry as the Target Company, being the information technology industry, and the comparable companies shall have more than 90% of total income generating from provision of information technology services with their main business in the PRC;

- the comparable companies shall have positive earnings in the past three years so to infer meaningful multiples for comparison; and

- the P/E ratio of the comparable companies shall not be significantly deviated from the industry median of approximately 21.8 times.

Taking into account the above selection criteria, the list of the Comparable Companies is an exhaustive list and the Independent Valuer is of the opinion that the Comparable Companies are fair and representative samples to determine the P/E multiple.

The principal business activities, the respective P/E multiples and the adjustments applied to the Comparable Companies are set out in the table below:

Company name	AsiaInfo Technologies Limited	Chinasoft International Ltd.	Beijing Trust & Far Technology Co., Ltd	Longshine Technology Group Co., Ltd.
Stock code	1675.HK	0354.HK	300231.SZ	300682.SZ
Principal business activities	The company provides mission-critical carrier-grade software products and services to Chinese telecom operators and large enterprises to improve their business agility, operational efficiency and productivity. The company's major income stream comes from the PRC.	The company is a large-scale comprehensive software and information service enterprise in the PRC, providing "end-to-end" software and information services including but not limited to consulting and information technology solutions services. The company's major income stream comes from the PRC.	The company is a national and professional data center and "one-stop" IT operation and maintenance service provider, mainly providing third-party operation and maintenance services for the IT infrastructure of government and enterprise data centers. The company's major income stream comes from the PRC.	The company is a technology and service provider focusing on business information systems in the public sector. The company's major income stream comes from the PRC.
P/E multiple before the Adjustment Factors (times)	14.8	15.7	19.1	24.6
Adjustment coefficients:				
Company scale adjustment	104.2%	103.1%	102.0%	102.0%
Profitability adjustment	107.5%	106.4%	107.5%	105.3%
Operating capability adjustment	109.9%	109.9%	109.9%	109.9%
Risk control adjustment	103.1%	103.1%	103.1%	102.0%
Growth capability adjustment	104.2%	104.2%	105.3%	104.2%
Total adjustment	**132.2%**	**129.4%**	**130.8%**	**125.5%**
P/E multiple after the Adjustment Factors (times)	19.5	20.3	24.9	30.8
Average adjusted P/E multiple (times)		**23.9**		

As advised by the Independent Valuer, the principal business activities of the Comparable Companies are comparable to the Target Company mainly considering (i) the Comparable Companies have similar income stream and business nature as the Target Company; and (ii) the Comparable Companies are operating in the same geographical location as the Target Company, being the PRC. The Target Company is principally engaged in the provision of information technology solutions services, which include, among others, the development and sale of software systems for corporate use, such as client relationship management, supply chain management and enterprise resources planning, and the provision of system operation and maintenance services to furniture manufacturers in the PRC, while the Comparable Companies are principally engaged in provision of information technology related services such as provision of software products and services and information technology operation and maintenance services to different industries in the PRC.

As further advised by the Independent Valuer, to take into account the difference in company scale, profitability, operating capability, risk control and growth capability between the Target Company and the Comparable Companies, it has adjusted the P/E multiples of the Comparable Companies by applying the adjustment coefficients derived from the Adjustment Factors, the details of which are set out below:

(i) a score is assigned to the Comparable Companies on each indicator of the Adjustment Factors after comparing the indicator with that of the Target Company. Different indicators are examined for different Adjustment Factors, regarding the adjustment for:

    (a) company scale, total assets and net assets attributable to the parent company are examined;

    (b) profitability, return on equity, return on net assets, gross profit margin and net profit margin are examined;

    (c) operating capability, receivables turnover rate, total assets turnover rate and current asset turnover rate are examined;

    (d) risk control, current ratio and debt to assets ratio are examined; and

    (e) growth capability, revenue growth rate and total assets growth rate are examined.

The benchmark score of the Target Company is set at 100 for comparison purpose. If the Comparable Companies are more inferior to that of the Target Company, a score of less than 100 would be assigned, or otherwise, a score of over 100 would be assigned;

(ii) the overall score of each Adjustment Factor is subsequently derived by taking into account the score of the indicators of the Comparable Companies;

(iii) the adjustment coefficient of each Adjustment Factor is then derived from the overall score of the Adjustment Factor, the calculation of which is set out below:

$$\textit{Adjustment coefficient of the Adjustment Factor} = \frac{1}{\textit{(Overall score of the Adjustment Factor)}}$$

; and

(iv) the total adjustment, which is the product of the adjustment coefficients of all five Adjustment Factors, is applied to the P/E multiple of the Comparable Companies to arrive at the adjusted P/E multiple.

By order of the Board
Huisen Household International Group Limited
Zeng Ming
Chairman

The PRC, 13 June 2023

As at the date of this announcement, the executive Directors are Mr. Zeng Ming, Ms. Zeng Minglan and Mr. Wu Runlu; and the independent non-executive Directors are Mr. Suen To Wai, Ms. Zhang Lingling and Mr. Feng Zhaowei.