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HANG SANG (SIU PO) INTERNATIONAL HOLDING COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3626)

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

ACQUISITION

The Board announced that on 7 February 2024 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor and the Target Company in relation to the acquisition of 91% equity interest in the Target Company at a cash consideration of HK\$8,645,000. The Target Company is principally engaged in the operation of a cafe by serving gourmet coffee and a variety of menu with western and Japanese style food in Hong Kong.

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Group.

LISTING RULES IMPLICATION

As all of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules are more than 5% and below 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board announced that on 7 February 2024 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor and the Target Company in relation to the acquisition of 91% equity interest in the Target Company at a consideration of HK\$8,645,000. The Target Company is principally engaged in the operation of a cafe by serving gourmet coffee and a variety of menu with western and Japanese style food in Hong Kong (the “Cafe”).

THE AGREEMENT

The principal terms of the Agreement are as follows:

Date

7 February 2024 (after trading hours)

Parties

- (1) Million Rank (HK) Limited (as Vendor)
- (2) Hang Sang (Siu Po) Holding Limited (as Purchaser)
- (3) Sky Honor Holdings Limited (as the Target Company)

Subject matter

The Vendor agreed to sell, and the Purchaser agreed to acquire, 91% equity interest in the Target Company.

Consideration

The consideration for the Acquisition is HK\$8,645,000, which shall be satisfied by the Purchaser in cash (the “**Consideration**”) in the following manners:

- (i) a refundable deposit of HK\$1,000,000 (the “**Deposit**”) shall be paid by the Purchaser upon the signing of the Agreement; and
- (ii) the remaining balance of the Consideration (i.e. HK\$7,645,000) shall be paid by the Purchaser upon Completion.

If Completion has not taken place in accordance with the Agreement, the Agreement shall be terminated. The Vendor shall refund all monies paid by the Purchaser to the Purchaser within 30 days from the date of termination of the Agreement.

The Consideration will be funded by the net proceeds from the Listing.

The Consideration was determined after arm’s length negotiations between the Purchaser and the Vendor with reference to the market value of 91% equity interest in the Target Company of HK\$9.46 million as at 31 August 2023 (the “**Valuation**”) prepared by Roma Appraisals Limited, an independent valuer (the “**Valuer**”), using market approach.

Details of the Valuation

The Valuation was conducted in accordance with to the International Valuation Standards established by the International Valuation Standards Council.

In arriving at the Valuation, the Valuer has considered the generally adopted valuation methodologies, namely the cost approach, the income approach and the market approach, and the Valuer has adopted market approach for the following reasons:

The income-based approach was not adopted in this case since the financial forecast could not be provided and a lot of assumptions would have to be made and the valuation could be largely influenced by any inappropriate assumptions made. The asset-based approach was also not adopted it could not capture the future earning potential of the Target Company and therefore it could not reflect the market value of the Target Company. The Valuer therefore considered the adoption of the market-based approach in arriving at the market value of the Target Company.

Having considered (i) the Valuation was prepared by the Valuer in accordance with the applicable requirements and standards; and (ii) that the Valuer considered the generally accepted business enterprise valuation approaches and the circumstances of the Target Company before adoption of market approach, the Board is of the view that the adoption of market approach for the Valuation is fair and reasonable.

The price-to-earnings ratio adopted was determined with reference to the price-to-earnings ratios of 5 comparable companies identified by the Valuer, all of which were selected under the following selection criteria: (i) the companies are principally engaged in restaurant or cafe business in catering industry in Hong Kong; (ii) the companies are listed on the Stock Exchange; (iii) the companies are profit-making (excluding those with exceptionally low net profit margin) in the financial year ended as of or nearest to the valuation date; (iv) the companies have sufficient listing and operating histories; and (v) the financial information of the companies is available to the public.

Having considered the above and that the Consideration represents a discount of approximately 8.62% to the Valuation, the Directors consider that the Consideration is fair and reasonable.

Profit guarantee

The Vendor guarantees to the Company and the Purchaser that the total accumulated net profit after taxation of the Target Company for the period from 1 March 2024 to 30 September 2027 shall be no less than HK\$9,200,000 and the net profit after taxation of the Target Company (after certain adjustments) for the following period shall be:

- (a) For the period from 1 March 2024 to 31 August 2024, shall be no less than HK\$1,300,000;
- (b) For the year ending 31 August 2025, shall be no less than HK\$2,600,000;

(c) For the year ending 31 August 2026, shall be no less than HK\$2,600,000; and

(d) For the 13 months ending 30 September 2027, shall be no less than HK\$2,700,000

(each period referred to as the “**Profit Guaranteed Period**”).

In the event that the total amount of net profits after taxation for any one or more of the Profit Guaranteed Periods to be calculated on an accumulated basis (the “**Accumulated Net Profit**”) is less than the total amount of the guaranteed net profits to be calculated on an accumulated basis for the same periods as set out above (the “**Accumulated Guaranteed Net Profit**”), the Vendor shall pay to the Purchaser an amount equivalent to 91% of the shortfall (the “**Shortfall Compensation**”). If the Shortfall Compensation paid in previous Profit Guarantee Period(s) is more than 91% of the accumulated shortfall for the current Profit Guaranteed Period, the Purchaser shall refund the excess amount over 91% of the accumulated shortfall to the Vendor. If the Accumulated Net Profit is more than the Accumulated Guaranteed Net Profit, the Purchaser shall refund all Shortfall Compensation paid by the Vendor (if any) to the Vendor.

Conditions precedent

Completion shall be subject to the following conditions precedent:

- (a) the warranties given by the Vendor remaining true and accurate and not misleading at Completion;
- (b) the Purchaser is satisfied by the results of the legal, financial, technical, operational and other due diligence on the Target Company and the equity interest in the Target Company to be transferred;
- (c) the compliance by the Company and the Purchaser of all applicable requirements under the Listing Rules and applicable laws; and
- (d) there is no material adverse change in the business, operation and financial conditions of the Target Company.

If any of the conditions precedent shall not have been fulfilled or waived within 14 days from the date of the Agreement (or such later date as the Vendor and the Purchaser may agree in writing), then the Purchaser shall not be bound to proceed with the purchase of the equity interest in the Target Company and the Agreement shall cease to have any effect and no party shall have any claim under it against the other (without prejudice to the rights of any party in respect of antecedent breaches).

Other major terms

The Vendor irrevocably and unconditionally grants an exclusive licence to the Target Company to use the trade name and the registered trade mark for operation of the business of the Cafe without any fees. The licence shall continue in effect from the Completion Date to 30 September 2027.

Completion

Completion shall take place on the Completion Date, i.e. within 14 days from the date of the Agreement (or such later date as the Vendor and the Purchaser may agree in writing).

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Group.

Shareholders Agreement

The Purchaser and the Vendor will enter into the Shareholders Agreement upon Completion with principal terms set out below:

Board of directors of the Target Company

The maximum number of directors of the Target Company shall be 4, of which up to 3 directors of the Target Company shall be nominated by the Purchaser and 1 director shall be nominated by the Vendor. The chairman of the board shall be nominated by the Purchaser.

The quorum of the board of directors of the Target Company shall be 2 directors.

All decisions by the board of the directors of the Target Company shall be transacted and approved by simple majority of the board. Each director shall carry one vote. The chairman of the board shall be entitled to a second or casting vote.

Shareholders' meeting of the Target Company

The quorum of shareholders' meetings of the Target Company shall be one or more shareholders holding an aggregate of more than 50% of the entire issued share capital of the Target Company.

Questions arising at any shareholders' meeting shall be decided by the shareholders holding an aggregate of more than 50% of the entire issued share capital of the Target Company.

Disposal of shares of the Target Company

Unless the Purchaser agrees otherwise, the Vendor shall not sell or transfer its equity interest in the Target Company. Subject to the aforesaid, both the Vendor and the Purchaser shall have pre-emptive rights in the event that the other party intends to sell its equity interest in the Target Company.

If the Purchaser proposes to sell its shares in the Target Company and the Vendor does not exercise its pre-emptive rights, the Purchaser shall have the drag-along rights, pursuant to which the Purchaser shall be entitled to (but not obliged to) request the Vendor to sell its shares in the Target Company to such third party transferee upon the same terms and conditions as those offered to the Purchaser by the third party transferee.

Respective responsibilities of the Vendor and the Purchaser

The Vendor shall be responsible for the daily operation of the business of the Target Company. The Vendor shall not be entitled to any basic remuneration nor fee for its services. The Vendor shall also provide the annual budget of the Target Company for consideration and approval by the Purchaser.

The Purchaser shall be responsible for accounts and finance of the Target Company.

Dividends

Provided that the Target Company has sufficient working capital and subject to the declaration of the special dividends below, 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.

As an incentive for the Vendor to manage the business of the Target Company, if the net profit after taxation of the Target Company for the following periods is more than the threshold points, 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 points:

- (a) for the period from 1 March 2024 to 31 August 2024, the threshold point shall be HK\$1,430,000;
- (b) for the year ending 31 August 2025, the threshold point shall be HK\$2,860,000;
- (c) for the year ending 31 August 2026, the threshold point shall be HK\$2,860,000; and
- (d) for the 13 months ending 30 September 2027, the threshold point shall be HK\$2,970,000.

INFORMATION ON THE GROUP AND THE PURCHASER

The Company is an investment holding company and the Group principally engaged in the businesses of manufacturing and sale of apparel labels and packaging printing products and sale and distribution of food, daily necessities and utility products.

The Purchaser is an investment holding company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company.

INFORMATION ON THE VENDOR

The Vendor is a company incorporated in Hong Kong with limited liability. The ultimate beneficial owner of the Vendor is Ms. Wong Shui Ching. The Vendor is principally engaged in the operation of coffee shops and restaurants. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are Independent Third Parties.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in Hong Kong on 18 August 2022 with limited liability and is principally engaged in operation of the Cafe by serving gourmet coffee and a variety of menu with western and Japanese style food. As at the date of this announcement, the Target Company is wholly-owned by the Vendor.

Set out below are the unaudited financial information of the Target Company:

	For the period from incorporation date (i.e. 18 August 2022) to 31 August 2023
	<i>HK\$</i>
Net profit before tax	1,589,438
Net profit after tax	1,327,181
	As at 31 August 2023
	<i>HK\$</i>
Net assets	1,327,182

REASONS FOR AND BENEFITS OF THE ACQUISITION

As disclosed in the annual report of the Company for the year ended 30 June 2023, geopolitical tensions and weaken global economic growth momentum impacted the global market continually. The global retail market, including the apparel market, was seriously affected. As a result, the demand for apparel labels and packaging printing products decreased correspondingly. The performance of the Group has inevitably been affected. In order to diversify and strengthen the Group's business foundation and maximise the interests of the Group and the Shareholders, the Group will continue to explore suitable and appropriate business opportunities.

The Acquisition represents a valuable opportunity to extend the Group's business footprints into food and beverage industry in Hong Kong, which is expected to contribute to the Group's long-term growth and development. The Acquisition enables the Group to diversify its business, and the Group's existing business of the sale and distribution of food products could be a concrete supply source for the cafe business of the Target Company. Through the Acquisition, the Group is able to obtain direct market information from customers of the Cafe, which enhance the Group's business of the sale and distribution of food products. Furthermore, the Target Company recorded profit after tax of approximately HK\$1.3 million for the period from its incorporation date (i.e. 18 August 2022) to 31 August 2023. The Board is of the view that the Acquisition may improve profitability of the Company.

Based on the above, the Directors are of the view that the terms and conditions of the Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As all of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules are more than 5% and below 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition”	acquisition of 91% of the equity interest in the Target Company by the Purchaser pursuant to the Agreement
“Agreement”	the sale and purchase agreement dated 7 February 2024 entered into by the Vendor, the Purchaser and the Target Company in relation to the Acquisition
“Board”	the board of Directors
“Company”	Hang Sang (Siu Po) International Holding Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition
“Completion Date”	any day within 14 days from the date of the Agreement (or such later date as the Vendor and the Purchaser may agree in writing)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong
“Independent Third Party(ies)”	third party(ies) who is/are independent of the Company and its connected persons

“Listing”	listing of Shares on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser”	Hang Sang (Siu Po) Holding Limited, a wholly-owned subsidiary of the Company
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Shareholders Agreement”	the Shareholders Agreement to be entered into by the Purchaser, the Vendor and the Company upon Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Sky Honor Holdings Limited
“Vendor”	Million Rank (HK) Limited
“%”	per cent

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, 7 February 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.