

華富建業企業融資有限公司
QUAM CAPITAL LIMITED
於香港註冊成立之有限公司 Incorporated in Hong Kong with limited liability

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4 October 2024

To the Independent Board Committee

Samson Holding Ltd.
Unit 1007, 10th Floor
Haleson Building
1 Jubilee Street
Central, Hong Kong

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF
SAMSON HOLDING LTD. BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES ACT)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
SAMSON HOLDING LTD.**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect to the Proposal and Scheme, details of which are set out in “Letter from the Board” (the “**Letter from the Board**”) and “Explanatory Memorandum” in the Scheme Document dated 4 October 2024, of which this letter forms part. Unless otherwise stated, terms defined in the Scheme Document have the same meanings in this letter.

On 11 July 2024, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme, which will involve the Shareholders at the Offer Price of HK\$0.480 in cash for each Scheme Share cancelled. If the Proposal is approved and implemented, all the Scheme Shares held by the Scheme Shareholders will be cancelled and extinguished on the Effective Date in exchange for payment of the Offer Price of HK\$0.480 for each Scheme Share; the Share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme

Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issue to the Offeror, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled. After the Scheme becoming effective, the Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. Ming-Jian KUO, Mr. Siu Ki LAU, Mr. Sui-Yu WU and Mr. Lin, being all of the independent non-executive Directors, has been established by the Board to make a recommendation to the Disinterested Scheme Shareholders as to (a) whether the Proposal and the Scheme are, or are not, fair and reasonable; and (b) whether to vote in favour of the Scheme at the Court Meeting and of the resolutions in connection with the implementation of the Proposal at the EGM, respectively. Mr. Sheng Hsiung PAN, being a non-executive Director, is presumed to be acting in concert with the Offeror (as each of the ultimate beneficial owners of the Offeror, Mr. Kuo and Ms. Liu, is also a Director) pursuant to class (6) of the definition of “acting in concert” in the Takeovers Code, and will not form part of the Independent Board Committee.

We have been appointed, with the approval of the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Proposal and the Scheme.

As at the Latest Practicable Date, we did not have any relationships or connection (financial or otherwise) with or interests in the Company, the Offeror, or any of their respective controlling shareholders and any party acting, or presumed to be acting, in concert with any of them, and accordingly, are qualified to give independent advice to the Independent Board Committee. Save for our appointment as the Independent Financial Adviser to the Independent Board Committee, we did not act as a financial adviser to the Company and the Offeror within the two years immediately preceding the commencement of the Offer Period and up to and including the Latest Practicable Date. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee, no arrangement exists whereby we shall receive any other fees or benefits from the Company or the Offeror or their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR ADVICE

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Scheme Document; (ii) the information provided by the Directors and the management of Company (the “**Management**”); (iii) the opinions expressed by and the representations of the Directors and the Management; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Scheme Document were true, accurate and complete in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Scheme Document are true in all material respects at the time they were made and continue to be true in all material respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in the Scheme Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the Management. Should there be any material changes to the statements, information and/or representation affecting our opinion after the Latest Practicable Date, the Disinterested Scheme Shareholders would be notified as soon as possible in compliance with Rule 9.1 of the Takeovers Code.

We have reviewed, among others, (i) the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”); (ii) the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”); (iii) the unaudited consolidated management accounts of the Group for the seven months ended 31 July 2024; (iv) the Announcement; (v) the property valuation report contained in Appendix II to the Scheme Document; and (vi) other information set out in the Scheme Document. We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Scheme Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinions expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position, financial forecast or future prospects of the Group and the Offeror.

This letter is issued for the purpose of advising the Independent Board Committee regarding the Proposal, and except for its inclusion in the Scheme Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

TERMS OF THE PROPOSAL

Under the Proposal, if the Scheme is approved and implemented, the Scheme Shares will be cancelled and extinguished and, in consideration therefor, each Scheme Shareholder as at the Scheme Record Date will be entitled to receive the Offer Price of HK\$0.480 in cash for each Scheme Share cancelled and extinguished under the Scheme.

The Offeror will not increase the Offer Price and does not reserve the right to do so. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Offer Price.

The total consideration payable to the Scheme Shareholders for the Scheme Shares cancelled and extinguished will be paid by the Offeror.

If, after the Latest Practicable Date, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the Shares, the Offeror reserves the right to reduce the Offer Price by all or any part of the amount or value of such gross dividend, distribution and/or, as the case may be, return of capital after consultation with the Executive, in which case any reference in this Scheme Document or any other announcement or document to the Offer Price will be deemed to be a reference to the Offer Price as so reduced. As at the Latest Practicable Date, the Company (a) has not announced or declared any dividend, distribution or return of capital which has not been made or which remains unpaid; and (b) does not intend to announce, declare, make or pay any dividend, distribution or return of capital on or before the Effective Date, or the date on which the Scheme is not approved or the Proposal otherwise lapses (as the case may be).

The implementation of the Proposal and the Scheme is subject to the Conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented and the Scheme may or may not become effective. As at the Latest Practicable Date, none of the Conditions have been fulfilled or waived (as the case may be). Details of the Conditions are set out in the section headed "CONDITIONS TO THE PROPOSAL AND THE SCHEME" of the Letter from the Board.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

The Company is a company incorporated in the Cayman Islands with limited liability whose Shares are listed on Main Board of the Stock Exchange. The Group is principally engaged in manufacturing and sale of furniture, trading of furniture and procurement services.

1.1 Financial Information of the Group

Set out below is a summary of (i) the audited consolidated financial information of the Company for the years ended 31 December 2022 (“FY2022”) and 2023 (“FY2023”) as extracted from the 2023 Annual Report; and (ii) the unaudited consolidated financial information of the Company for the six months ended 30 June 2023 (“HY2023”) and 2024 (“HY2024”) as extracted from the 2024 Interim Report.

| | FY2022 | FY2023 | HY2023 | HY2024 |
|--|------------------|------------------|--------------------|--------------------|
| | <i>US\$'000</i> | <i>US\$'000</i> | <i>US\$'000</i> | <i>US\$'000</i> |
| | <i>(audited)</i> | <i>(audited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Revenue | 598,850 | 414,539 | 215,630 | 200,072 |
| Cost of sales | (446,382) | (307,319) | (163,010) | (147,339) |
| Gross profit | 152,468 | 107,220 | 52,620 | 52,733 |
| Other income and gains, net | 9,523 | 24,067 | 12,503 | 7,549 |
| Distribution costs | (14,529) | (12,623) | (7,081) | (4,800) |
| Sales and marketing expenses | (67,113) | (57,064) | (29,725) | (28,799) |
| Administrative expenses | (53,064) | (46,662) | (23,814) | (23,495) |
| Share of (loss)/profit of an associate | 72 | (215) | 17 | (56) |
| Finance costs | (7,308) | (10,556) | (5,873) | (4,101) |
| Profit/(loss) before income tax | 20,049 | 4,167 | (1,353) | (969) |
| Income tax (expenses)/credit | (4,924) | (879) | 230 | 253 |
| Profit/(loss) for the year/period | 15,125 | 3,288 | (1,123) | (716) |

| | As at 31 December 2022 US\$'000 (audited) | As at 31 December 2023 US\$'000 (audited) | As at 30 June 2024 US\$'000 (unaudited) |
|--------------------------|---|---|---|
| Non-current assets | 206,455 | 196,997 | 189,923 |
| Current assets | 409,921 | 334,954 | 322,005 |
| Total assets | 616,376 | 531,951 | 511,928 |
| Non-current liabilities | 53,856 | 19,483 | 13,919 |
| Current liabilities | 247,153 | 197,869 | 186,222 |
| Total liabilities | 301,009 | 217,352 | 200,141 |
| Net assets | 315,367 | 314,599 | 311,787 |

FY2023 as compared with FY2022

The Group's revenue was mainly derived from sale of furniture in the U.S. The Group recorded a decrease in revenue of approximately 30.8% from US\$598.9 million for FY2022 to US\$414.5 million for FY2023. The revenue decrease was mainly a result of the decrease in demand of sizable home furniture in the U.S. due to continuous decline in housing market in 2023.

It is noted that the Group has implemented multiple measures to control costs in response to the difficult business environment. These measures have included adjustment in inventory levels and reduction in variable expenses in sales and marketing and administrative as well as personnel cost. Gross profit margin of the Group slightly increased to 25.9% in FY2023 from 25.5% in FY2022. The Group recorded a net profit of US\$3.3 million for FY2023, representing a decrease of 78.1% from US\$15.1 million for FY2022.

HY2024 as compared with HY2023

The Group recorded a decrease in revenue of approximately 7.2% from US\$215.6 million for HY2023 to US\$200.1 million for HY2024. The revenue decrease was mainly attributable to the U.S. housing market remained inactive during HY2024. Gross profit margin of the Group increased to 26.4% in HY2024 from 24.4% in HY2023, mainly due to more sales discounts offered during HY2023 for inventory destocking purpose.

The Group recorded a loss of US\$0.7 million for HY2024, as compared with a loss of US\$1.1 million for HY2023. The decrease in loss was mainly attributable to the gross profit margin improvement and series of cost control measures.

Financial position

As at 30 June 2024, total assets of the Group was US\$511.9 million, which mainly consisted of (i) inventories of US\$107.1 million which composed raw materials, work-in-progress and finished goods for the manufacturing of furniture; (ii) held-for-trading investments of US\$82.3 million; and (iii) trade and other receivables of US\$83.6 million.

As at 30 June 2024, total liabilities of the Group was US\$200.1 million, which mainly consisted of (i) interest-bearing bank borrowings of US\$102.7 million; (ii) trade and other payables of US\$57.6 million; and (iii) tax payable of US\$19.9 million.

The unaudited consolidated net assets of the Group attributable to the Shareholders amounted to US\$311.8 million as at 30 June 2024. Based on 3,025,814,773 issued Shares as at the 30 June 2024 and the Reference Exchange Rate, the consolidated net asset value attributable to the Shareholders per Share as at 30 June 2024 was approximately HK\$0.804.

1.2 Property valuation

The valuation report (the “**Valuation Report**”) prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Valuer**”) relating to the valuation (the “**Valuation**”) of properties interests held by the Group (the “**Properties**”) is set out in Appendix II to the Scheme Document.

We have conducted an interview with the Valuer to assess its qualifications and experiences in valuing similar property interests and we casted no doubt that the Valuer and the signor of the Valuation Report have sufficient qualifications and experiences in valuing the Properties. The Valuer has also confirmed its independence from the Company and the Offeror and their respective concert parties. Save for the Valuation engagement, the Valuer has no current or prior relationships with the core connected persons of the Company or the Offeror. We are not aware the Company or the Offeror has made any formal or informal representation to the Valuer. In addition, we have reviewed the Valuer’s terms of engagement and noted that the scope of work is appropriate for arriving at the opinion in the Valuation and there are no limitations on the scope of work which might adversely affect the degree of assurance given by the Valuer in the Valuation Report. As noted in the Valuation Report, in valuing the Properties, the Valuer has complied with all requirements contained in Chapter 5 and Practice Note 12 of the Listing Rules; Rule 11 of the Takeovers Code; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have reviewed the Valuation Report and discussed with the Valuer, among others, the bases and assumptions and the methodology adopted, and the major procedures performed by the Valuer for the Valuation. With reference to the Valuation Report, the Properties consist of 23 properties located in the PRC, the U.S., Indonesia, Bangladesh and Vietnam. Following discussions with the Valuer, we noted that the Valuer has adopted comparison approach, income approach, or cost approach, where appropriate, subject to factors such as the nature of the underlying Properties and the availability of the relevant market evidence. As advised by the Valuer, each of the comparison approach, income approach and cost approach is commonly adopted valuation approaches for valuing properties of similar nature as the Properties. Based on our discussion with the Valuer and our review of the Valuation Report, we consider the principal bases and assumptions adopted by the Valuer in respect of the Valuation are appropriate.

1.3 Adjusted NAV

In evaluating the Proposal, we have taken into account the Group's Adjusted NAV, which is provided by the Company and calculated based on the unaudited net asset value ("NAV") of the Group as at 30 June 2024, adjusted with reference to the Valuation as at the valuation date (i.e. 31 July 2024). With reference to the Scheme Document, details of the adjustments are set out in the table below:

| | <i>US\$'000</i> |
|---|-----------------|
| Unaudited NAV of the Group as at 30 June 2024 | 311,787 |
| <i>Add: net revaluation surplus arising from the Valuation ⁽¹⁾</i> | <u>39,951</u> |
| Adjusted NAV attributable to Shareholders | 351,738 |
| Adjusted NAV attributable to Shareholders per Share: | |
| In US\$⁽²⁾ | 0.116 |
| In HK\$^(2,3) | 0.907 |
| Discount of the Offer Price to the Adjusted NAV attributable to Shareholders per Share | 47.08% |

Notes:

1. This represents the net revaluation surplus calculated by comparing the market value of the Properties held by the Group from the Valuation, over the corresponding book value of the Properties as at 30 June 2024, net of the potential tax attributable to the revaluation surplus.
2. It is calculated based on 3,025,814,773 Shares in issue as at the Latest Practicable Date.
3. Based on Reference Exchange Rate.

1.4 Outlook of the Group

As described under section 1.1 above, the Group's overall financial results had not been satisfactory in the recent years/periods in view of the continuous decrease in revenue from FY2022 to FY2023 and from HY2023 to HY2024. We have reviewed the 2024 Interim Report and noted that, the Group has been affected by a number of adverse factors such as high level of interest rate, political turmoil and other uncertainties which caused the U.S. housing market to remain inactive and has been slowing down the market demand for furniture in the U.S.. According to the June 2024 Advance Monthly Retail report released by the U.S. Department of Commerce, the total sales from furniture & home furnishings stores in the U.S. for January to June 2024 was estimated to decrease by 7.0% as compared with the corresponding period in 2023.

With reference to the 2024 Interim Report, in the face of challenges and uncertainties within the U.S. furniture industry, the Group has been constantly striving to react appropriately, focusing on improving margins through efficient cost control measures, diversifying sales channels and continuous improvement of product quality and keep exploring more customers through diverse channels, committed in investing digital marketing and strategies to increase the Group's online presence and attract a wider potential customers, and by continuing to streamline the Group's operations, for example by standardizing and automating the manufacturing process, to improve operational efficiencies across the Group.

Overall, having considered, among others, (i) the expected challenges and uncertainties faced by the Group arising from the overall market conditions in the U.S. such as the high interest rate environment and the political turmoil; (ii) the Group's unsatisfactory financial performance in recent years/periods under the headwinds from the macro environment, we maintain a cautious view on the outlook of the Group in the near term.

2. Background information of the Offeror

2.1 The Offeror and the Offeror Concert Parties

The Offeror is a company incorporated in Hong Kong with limited liability, which is principally engaged in investment holding and is wholly-owned by Green Bliss Limited (綠怡有限公司), which is ultimately and beneficially owned as to 50% by Mr. Kuo and as to 50% by his spouse, Ms. Liu. As at the Latest Practicable Date, the directors of the Offeror are Mr. Kuo and Ms. Liu. Mr. Kuo is the chairman of the Company and an executive Director, while Ms. Liu is the deputy chairman of the Company and an executive Director.

Advent Group Limited is a company incorporated in the British Virgin Islands with limited liability, which is principally engaged in investment holding and is owned as to 70% by Magnificent Capital Holding Limited and as to 30% by certain family members of Mr. Kuo. Magnificent Capital Holding Limited is owned as to 50% by Mr. Kuo and 50% by Ms. Liu, respectively.

Mr. Aminozakeri is an executive Director and therefore presumed to be acting in concert with the Offeror pursuant to class (6) of the definition of “acting in concert” in the Takeovers Code. The Shares held by Mr. Aminozakeri will form part of the Scheme Shares and will be cancelled and extinguished upon the Scheme being effective.

2.2 The Offeror’s intention in relation to the Company

As at the Latest Practicable Date, the Offeror intends for the Group to continue carrying on its existing businesses following the implementation of the Proposal and does not have any plan to make any material changes to (a) the continued employment of the employees of the Group (other than in the ordinary course of business of the Group) and (b) the business of the Group (including any redeployment of any fixed asset of the Group). The Offeror will conduct a strategic review of the Group’s assets, corporate structure, capitalisation, operations, properties, policies and management to determine if any changes (including any redeployment of the fixed assets) would be appropriate and desirable following the implementation of the Proposal with a view to optimising the Group’s activities and development, and may make any changes as the Offeror deems necessary, appropriate or beneficial for the Group in light of its review of the Group or any future development.

3. Offer Price

3.1 Offer Price comparison

The Offer Price of HK\$0.480 per Share under the Proposal represents:

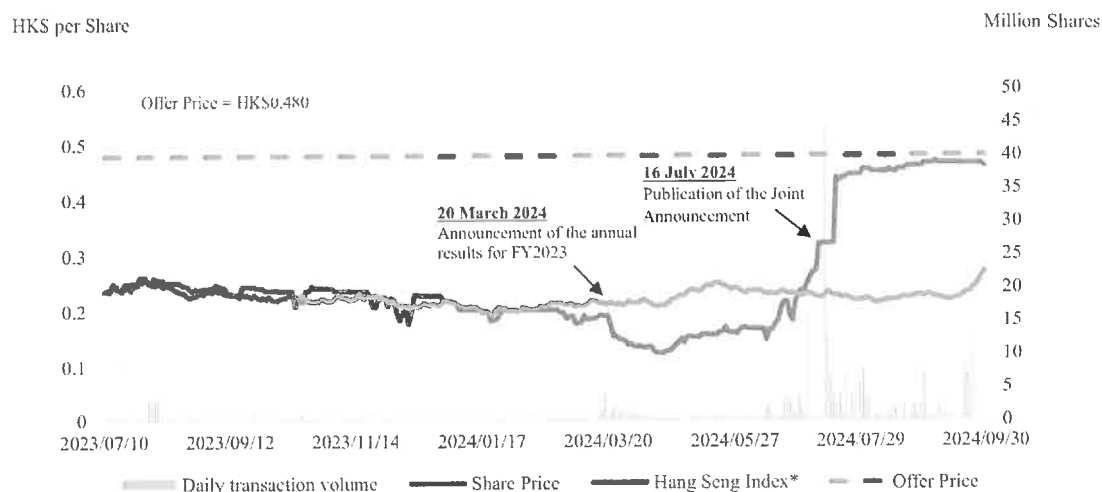
- (i) a premium of approximately 3.23% over the closing price of HK\$0.465 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 50.00% over the closing price of HK\$0.320 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 75.31% over the average closing price of approximately HK\$0.274 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 94.57% over the average closing price of approximately HK\$0.247 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

- (v) a premium of approximately 143.24% over the average closing price of approximately HK\$0.197 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 181.44% over the average closing price of approximately HK\$0.171 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 182.22% over the average closing price of approximately HK\$0.170 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 171.24% over the average closing price of approximately HK\$0.177 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- (ix) a premium of approximately 149.95% over the average closing price of approximately HK\$0.192 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- (x) a premium of approximately 77.78% over the closing price of HK\$0.270 per Share as quoted on the Stock Exchange on the Last Undisturbed Day;
- (xi) a premium of approximately 86.77% over the average closing price of approximately HK\$0.257 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Undisturbed Day;
- (xii) a premium of approximately 105.39% over the average closing price of approximately HK\$0.234 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Undisturbed Day;
- (xiii) a premium of approximately 150.09% over the average closing price of approximately HK\$0.192 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Undisturbed Day;

- (xiv) a premium of approximately 186.74% over the average closing price of approximately HK\$0.167 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Undisturbed Day;
- (xv) a premium of approximately 184.45% over the average closing price of approximately HK\$0.169 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Undisturbed Day;
- (xvi) a premium of approximately 172.78% over the average closing price of approximately HK\$0.176 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Undisturbed Day;
- (xvii) a premium of approximately 150.56% over the average closing price of approximately HK\$0.192 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Undisturbed Day;
- (xviii) a discount of approximately 40.81% to the audited consolidated NAV attributable to the Shareholders per Share of approximately HK\$0.811 as at 31 December 2023, based on the Reference Exchange Rate; and
- (xix) a discount of approximately 40.28% to the unaudited consolidated NAV attributable to the Shareholders per Share of approximately HK\$0.804 as at 30 June 2024, based on the Reference Exchange Rate; and
- (xx) a discount of approximately 47.08% to the Adjusted NAV attributable to the Shareholders per Share of approximately HK\$0.907.

3.2 Analysis of historical price performance of the Shares

Set out below is the movement of the closing price of the Shares and Hang Seng Index from 10 July 2023, being approximately one year period before the Last Trading Day (i.e. 9 July 2024), and up to the Latest Practicable Date (the “Review Period”). We consider the length of such period is sufficient and representative to provide a general overview of the recent market performance of the Shares and market sentiment for conducting a reasonable comparison between the closing Share prices and the Offer Price.-



Source: the website of the Stock Exchange (www.hkex.com.hk)

Note: Hang Seng Index is rebased to the closing price of Shares as at 10 July 2023

The Shares were closed below the Offer Price at all times during the Review Period. From the beginning of the Review Period until the Last Trading Day, the closing price of the Shares fluctuated within the range between the lowest of HK\$0.121 (17, 18 and 19 April 2024) and the highest of HK\$0.320 (the Last Trading Day), and the Offer Price represents a premium of approximately 134.1% over the average closing price during such period of HK\$0.205 per Share. After the Last Trading Day until the Latest Practicable Date, the closing Share price increased sharply and fluctuated within a higher range between HK\$0.320 and HK\$0.470, which was likely to be associated with the market response to the Proposal. There is no assurance that the closing price of the Shares will remain at the current level or continue to rise if the Scheme is not approved or the Proposal otherwise lapses.

The closing price of the Shares was in general on a downward trend starting from early July 2023 to mid-March 2024, which was generally in line with the movement of the Hang Seng Index. Following the publication of the annual results announcement of the Company for FY2023 on 20 March 2024, which announced a decrease in profit of the Group for FY2023, the closing price of the Shares decreased and had slumped to its lowest at HK\$0.121 on 17, 18 and 19 April 2024. Thereafter, the closing price of the Shares rebounded and exhibited an increasing trend until the Last Trading Day. Save as disclosed above, we did not notice any other announcements of the Company during the Review Period which may have correlation to the Share price movement shown in the chart above.

3.3 Trading volume analysis

The table below sets out the average daily trading volume of the Shares on a monthly basis during the Review Period and the respective percentages of the average daily trading volume of the Shares as compared to the total number of issued Shares and the total number of issued Shares held by the Disinterested Scheme Shareholders.

| Period/month | Average daily trading volume (number of Shares) (Note 1) | Approximate percentage of average daily trading volume to total number of issued Shares % (Note 2) | Approximate percentage of average daily trading volume to total number of issued Shares held by Disinterested Scheme Shareholders % (Note 3) |
|---|---|--|--|
| 2023 | | | |
| July (starting from 10 July 2023) | 5,733 | * | * |
| August | 625,696 | 0.02% | 0.07% |
| September | 64,789 | * | 0.01% |
| October | 57,400 | * | 0.01% |
| November | 87,636 | * | 0.01% |
| December | 37,684 | * | * |
| 2024 | | | |
| January | 30,409 | * | * |
| February | 12,632 | * | * |
| March | 577,350 | 0.02% | 0.07% |
| April | 768,656 | 0.03% | 0.09% |
| May | 319,048 | 0.01% | 0.04% |
| June | 935,842 | 0.03% | 0.11% |
| July | 5,317,005 | 0.18% | 0.61% |
| August | 1,842,273 | 0.06% | 0.21% |
| September (up to and including the Latest Practicable Date) | 3,223,000 | 0.11% | 0.37% |
| Average | 927,010 | 0.03% | 0.11% |

* Less than 0.01%

Source: the website of the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. Based on total number of issued Shares at the respective month/period end.
3. Based on the number of issued Shares held by the Disinterested Scheme Shareholders as at the Latest Practicable Date.

As illustrated in the above table, the average daily trading volume of the Shares was thin during the Review Period, with a range from less than 0.01% to approximately 0.18% of the total number of the Shares in issue and less than 0.01% to approximately 0.61% of the issued Shares held by the Disinterested Scheme Shareholders. We noted the higher average daily volume for July 2024, which we believe that the increase in trading volume of the Shares was possibly due to the market reaction to the publication of the Announcement. The above statistics illustrate that the liquidity of the Shares was thin and there may not be sufficient liquidity in the Shares and an active market for the Shareholders to dispose considerable amount of their Shares in the open market without having an adverse impact on the price level of the Shares.

In view of the above, the Proposal provides an opportunity for the Shareholders to realize their investment in the Company for cash regardless of the number of Shares they hold without exerting downward pressure on the market price of the Shares.

3.4 Comparables analysis

In order to assess the fairness and reasonableness of the Offer Price, we took into consideration the reference to price-to-earnings (“P/E”) ratio and price-to-book (“P/B”) ratio, which are commonly used benchmarks in assessing the valuation of a company.

We have identified five comparable companies (the “Comparable Companies”) as presented in the table below, which is an exhaustive list based on the selection criteria including (i) companies being listed on the Main Board of the Stock Exchange; (ii) companies with market capitalisation of less than HK\$3 billion as at the Latest Practicable Date, having considered the implied market capitalisation of the Company based on the Offer Price; and (iii) companies with over 50% of its latest reported annual revenue generated from manufacturing and sales of furniture, indicating that such business is their principal business and primary revenue driver like the Group. While the revenue of the Comparable Companies was not substantially generated from the United States like the Group, we believe the Comparable Companies selected are appropriate to serve as a benchmark reference for our comparable analysis purpose, which reflected the prevailing market sentiment towards the same business sector. We consider the Comparable Companies to be fair and representative samples for comparison purpose.

Disinterested Scheme Shareholders should note that despite the aforesaid criteria, the business, scale of operation, trading prospect, location of business and capital structure of the Company are not exactly the same as those of the comparable companies, and we have not conducted any in-depth investigation into the businesses and operations of the comparable companies.

| Company name (Stock code) | Principal businesses | Percentage of revenue generated from the manufacturing and sales of furniture business (Note 1) | Market capitalisation (Note 2) HK\$' million | P/E ratio (Note 2) times | P/B ratio (Note 2) times |
|--|--|--|---|---|---|
| Royale Home Holdings Limited (1198.HK) | Principally engaged in the design, manufacturing, sale of sofas, beds, chairs, tables, cabinets, and other furniture | 94.6% | 1,039 | N/A (Note 2) | 0.64 |
| Huisen Shares Group Limited (2127.HK) | Principally engaged in the manufacturing and sale of household furnishings | 99.6% | 250 | 1.1 | 0.05 |
| Kasen International Holdings Ltd. (496.HK) | Principally engaged in the manufacturing of upholstered furniture and leather product | 55.4% | 382 | 4.9 | 0.09 |
| Regal Partners Holdings Ltd. (1575.HK) | Principally engaged in the design, production and marketing of sofa, wood furniture, and other related accessories | 100.0% | 193 | N/A (Note 3) | N/A (Note 4) |
| Hing Lee HK Holdings Limited (396.HK) | Principally engaged in the manufacturing, and wholesale of home furniture products | 88.2% | 44 | N/A (Note 3) | 0.40 |

| Company name (Stock code) | Principal businesses | Percentage of revenue generated from the manufacturing and sales of | | | |
|------------------------------|----------------------|--|---|-----------------------------------|-----------------------------------|
| | | furniture business (Note 1) | Market capitalisation (Note 2) HK\$' million | P/E ratio (Note 2) times | P/B ratio (Note 2) times |
| | | | Maximum | 4.9 | 0.64 |
| | | | Minimum | 1.1 | 0.05 |
| | | | Average | 3.0 | 0.30 |
| | | | Median | 3.0 | 0.25 |
| The Company | | 99.9% (Note 1) | 1,452 (Note 5) | 56.4 (Note 6) | 0.53 (Note 7) |

Source: Bloomberg, website of the Stock Exchange

Notes:

- For the latest financial year based on the latest published annual reports of the companies.
- The market capitalization of the Comparable Companies are based on information extracted from Bloomberg as at the Latest Practicable Date. The P/E ratios of the Comparable Companies are based on the market capitalization as at the Latest Practicable Date and the profit attributable to shareholders for the latest financial year reported in the respective companies' annual reports. The P/B ratios of the Comparable Companies are based on the market capitalization as at the Latest Practicable Date and the net asset value attributable to shareholders as at the latest financial period end reported in the respective companies' financial reports or results.
- The P/E ratio is not applicable as the subject company recorded net loss in its latest financial year.
- The P/B ratio is not applicable as the subject company was in net liability position as at its latest financial period end.
- The implied market capitalization of the Company under the Proposal is calculated by multiplying the Offer Price of HK\$0.480 per Share and the number of issued Shares of 3,025,814,773 Shares as at the Latest Practicable Date.
- The implied P/E ratio of the Company is calculated based on the implied market capitalization and the profit for the year of the Company for the year ended 31 December 2023.
- The implied P/B ratio of the Company is calculated based on the implied market capitalization and the Adjusted NAV attributable to Shareholders as discussed under section 1.3 above.

As shown in the above table, the P/E ratios of the Comparable Companies ranged from approximately 1.1 times to 4.9 times with an average and median of approximately 3.0 times. As such, the implied P/E ratio of the Company under the Proposal of approximately 56.4 times is substantially higher than all P/E ratios of the Comparable Companies.

The P/B ratios of the Comparable Companies ranged from approximately 0.05 times to 0.64 times with an average and median of approximately 0.30 times and 0.25 times respectively. As such, the implied P/B ratio of the Company under the Proposal of approximately 0.53 times is higher than the average and median of the P/B ratios of the Comparable Companies.

Based on the above, we consider that the Offer Price is fair and reasonable from the perspective of comparables analysis.

3.5 Privatisation precedents

To further assess the fairness and reasonableness of the terms of the Proposal, we have reviewed recent successful privatisation precedents on the Stock Exchange and studied their respective offer/cancellation price relative to their share price movements. In selecting the privatisation precedents, we have screened for companies: (i) of which the shares were listed on the Main Board of the Stock Exchange before completing privatisation; (ii) of which the privatisation proposal was also conducted by way of a scheme of arrangement; (iii) of which the privatisation was announced since 1 July 2022 and up to the Last Trading Day, representing a period of approximately two years; and (iv) which has been successfully privatized as at the Latest Practicable Date. Based on our research, we have identified an exhaustive list of 14 precedent privatisations (the “**Privatisation Precedents**”). We consider that such review period which covers approximately two years and the sample size identified under such basis to be appropriate and sufficient for analysis of the pricing of recent privatisations of Main Board listed companies in Hong Kong and such period is close enough to reflect the prevailing market conditions in Hong Kong. It should be noted that the subject companies in the Privatisation Precedents were involved in industries which are not identical to that of the Company. As such, the analysis should not be considered on an isolated basis but should be taken into account in totality with other factors for considering whether to accept the Proposal. Nevertheless, we are of the view that the Privatisation Precedents would be able to provide us with a fair and representative reference of the recent market pricings of privatisation proposals in the Hong Kong capital market. Set out below is the comparison between the Proposal and the Privatisation Precedents in terms of the premium or discount of the cancellation price over or to the respective closing price on the last trading day or undisturbed day and the respective average closing price over the last 5, 30, 60, 120 and 180 trading days of the shares.

| Date of Rule 3.5 announcement | Company | Stock code | Premium/(discount) of cancellation/offer price over/to the closing price/average closing price per share on/over ^(Note 1) | | | | | |
|-------------------------------------|--|---------------|---|---|--|--|---|---|
| | | | Last trading day/ undisturbed day ^(Note 2) | Last 5 trading days average ^(Note 2) | Last 30 trading days average ^(Note 2) | Last 60 trading days average ^(Note 2) | Last 120 trading days average ^(Note 2) | Last 180 trading days average ^(Note 2) |
| | | | | | | | | |
| 27 May 2024 | Huafa Property Services Group Company Limited | 982 | 30.63% | 36.79% | 70.59% | 82.24% | 90.01% | 104.89% |
| 28 Mar 2024 | SciClone Pharmaceuticals (Holdings) Limited | 6600 | 33.90% | 36.03% | 47.47% | 47.93% | 58.06% | 67.06% |
| 14 Dec 2023 | Sinosoft Technology Group Limited | 1297 | 29.41% | 30.43% | 31.13% | 22.48% | 11.39% | 14.23% |
| 6 Oct 2023 | Haitong International Holdings Limited | 665 | 114.08% | 111.11% | 126.53% | 122.22% | 125.19% | 110.53% |
| 6 Oct 2023 | Pine Care Group Limited | 1989 | (1.11)% | 0.68% | 1.48% | 8.94% | (24.01)% | 43.78% |
| 15 Sep 2023 | Lansen Pharmaceutical Holdings Limited | 503 | 26.76% | 24.14% | 20.00% | 15.37% | 14.60% | 23.29% |
| 1 Sep 2023 | CST Group Limited | 985 | 61.29% | 24.38% | 36.61% | (1.38)% | 13.90% | (33.82)% |
| 27 Jun 2023 | Dali Foods Group Company Limited | 3799 | 37.87% | 36.36% | 30.21% | 21.75% | 49.21% | 12.99% |
| 11 Jun 2023 | Mason Group Holdings Limited | 273 | 20.71% | 20.71% | 19.15% | 16.15% | 82.65% | 19.18% |
| 28 May 2023 | Golden Eagle Retail Group Limited | 3308 | 40.41% | 62.03% | 54.87% | 49.61% | 25.74% | 45.36% |
| 21 Feb 2023 | Jiangnan Group Limited | 1366 | 12.68% | 72.27% | 101.44% | 99.55% | 11.39% | 77.48% |

| | | Premium/(discount) of cancellation/offer price over/to the closing price/average closing price per share on/over ^(Note 1) | | | | | | |
|-------------------------------|--|--|---|--|--|--|--|--|
| Date of Rule 3.5 announcement | Company | Stock code | Last trading day/ | Last 5 | Last 30 | Last 60 | Last 120 | Last 180 |
| | | | undisturbed trading day ^(Note 2) | trading days average ^(Note 2) | trading days average ^(Note 2) | trading days average ^(Note 2) | trading days average ^(Note 2) | trading days average ^(Note 2) |
| 17 Feb 2023 | AAG Energy Holdings Limited | 2686 | 10.12% | 10.38% | 10.69% | 23.97% | 125.19% | 26.09% |
| 24 Oct 2022 | Kingston Financial Group Limited | 1031 | 47.78% | 48.37% | 39.41% | 33.27% | 26.64% | 10.99% |
| 5 Aug 2022 | Lifestyle International Holdings Limited | 1212 | 62.34% | 75.93% | 70.11% | 58.66% | 38.72% | 30.01% |
| | | Maximum | 114.08% | 111.11% | 126.53% | 122.22% | 125.19% | 110.53% |
| | | Minimum | (1.11)% | 0.68% | 1.48% | (1.38)% | (24.01)% | (33.82)% |
| | | Average | 36.44% | 41.74% | 47.00% | 42.89% | 40.18% | 39.40% |
| | | Median | 30.02% | 33.59% | 38.01% | 28.62% | 28.31% | 28.05% |
| The Proposal | based on Last Undisturbed Day | | 77.78% | 86.77% | 150.09% | 186.74% | 172.78% | 150.56% |
| | based on Last Trading Day | | 50.00% | 75.31% | 143.24% | 181.44% | 171.24% | 149.95% |

Source: Bloomberg and website of the Stock Exchange

Notes:

1. The figures are quoted from the respective scheme document or if such data is not available, calculated based on the offer/cancellation price divided by average closing price of shares during the relevant period.
2. Up to and including the last trading day or undisturbed day of the shares (where applicable).

As shown in the table above, the premiums represented by the Offer Price over the Last Undisturbed Day and Last Trading day in all types of comparisons (i.e. last trading day/undisturbed day, 5-day average, 30-day average, 60-day average, 120-day average and 180-day average) are larger and more favourable than the average and median premiums of the Privatisation Precedents. Therefore, we consider the Offer Price is fair and reasonable from the perspective of the privatisation precedents analysis.

3.6 Analysis of the discount represented by the Offer Price to the NAV attributable to Shareholders per Share

In addition to the above, we have further analysed the discount represented by the Offer Price to the NAV attributable to Shareholders per Share. The Offer Price represents a discount of approximately (i) 40.81% to the consolidated NAV attributable to the Shareholders per Share as at 31 December 2023; (ii) 40.28% to the consolidated NAV attributable to the Shareholders per Share as at 30 June 2024; and (iii) 47.08% to the Adjusted NAV attributable to the Shareholders per Share.

In assessing the Offer Price compared to the NAV attributable to Shareholders per Share, set out below is a table illustrating the historical closing Share prices against the published NAV of the Group for the 12-month period before the Last Trading Day:

| From | To | NAV per Share (Note 1) (HK\$) | Average closing Share price (HK\$) | Highest closing Share price (HK\$) | Lowest closing Share price (HK\$) | Approximate discount of average Share closing price to NAV per Share | Approximate discount of highest Share closing price to NAV per Share | Approximate discount of lowest Share closing price to NAV per Share |
|--|-------------|-------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|--|--|---|
| 10 Jul 2023 | 23 Aug 2023 | 0.813 | 0.248 | 0.260 | 0.235 | 69.5% | 68.0% | 71.1% |
| <i>(i.e. the period immediately before and up to the date when the interim results of the Company for the six months ended 30 June 2023 was published)</i> | | | | | | | | |
| 24 Aug 2023 | 20 Mar 2024 | 0.801 | 0.216 | 0.247 | 0.175 | 73.0% | 69.2% | 78.2% |
| <i>(i.e. the period immediately before and up to the date when the annual results of the Company for the year ended 31 December 2023 was published)</i> | | | | | | | | |
| 21 Mar 2024 | 9 Jul 2024 | 0.811 | 0.166 | 0.320 | 0.121 | 79.5% | 60.5% | 85.1% |
| <i>(i.e. the period up to the Last Trading Day)</i> | | | | | | | | |

Source: the website of the Stock Exchange

Note 1: The latest published audited or unaudited NAV attributable to Shareholders per Share for the respective period.

With reference to the table above, we noted that the Shares had been traded at a substantial discount to the NAV at all times during the 12-month period before the Last Trading Day ranging from approximately 60.5% to 85.1%, which was steeper as compared with the discount to NAV represented by the Offer Price. This indicates that the investors might not have valued the Shares based solely on the value of the Company's net assets and the Shareholders may not be able to realise their investments in the Shares through an on-market transaction at a price equal or similar to the NAV per Share.

Furthermore, as discussed under section 3.4 above, the average and median P/B ratios of the Comparable Companies were approximately 0.30 times and 0.25 times respectively, which were lower than the implied P/B ratio of the Company as calculated based on the Offer Price and the Adjusted NAV attributable to Shareholders of approximately 0.53 times. It appears common for the shares of companies operating in the same industry as the Group to be traded as discount to their NAV under the current market environment.

Based on the above, we are of the view that the discount represented by the Offer Price to the NAV attributable to Shareholders per Share is fair and reasonable.

RECOMMENDATIONS

Having considered the factors and reasons set out in this letter, in particular,

- (i) taking into account the unsatisfactory financial performance of the Group in recent years/periods under the headwinds from the macro environment and the expected challenges and uncertainties faced by the Group arising from the overall market conditions in the U.S. as discussed under section 1 above, the outlook of the Group in the near term should be viewed cautiously;
- (ii) the Offer Price is higher than the closing prices of the Shares on all trading days throughout the Review Period, and represents a premium of approximately 134.1% over the average closing prices from the beginning of the Review Period until the Last Trading Day;
- (iii) given that the trading liquidity of the Shares was thin during the Review Period, it may be difficult for the Disinterested Scheme Shareholders to dispose of their Shares in the open market without exerting downward pressure on the Share price;
- (iv) notwithstanding that the Offer Price represents a discount to the NAV attributable to Shareholders per Share, (a) the Shares had been traded at a substantial discount to the NAV at all times during the 12-month period before the Last Trading Day which was steeper as compared with the discount to NAV represented by the Offer Price; and (b) it appears common for the shares of companies operating in the same industry as the Group to be traded as discount to their NAV under the current market environment;
- (v) the Offer Price is fair and reasonable from the comparables analysis standpoint given that the implied P/E ratio of the Company under the Proposal is substantially higher than all P/E ratios of the Comparable Companies, while the implied P/B ratio of the Company under the Proposal is higher than the average and median of the P/B ratios of the Comparable Companies,

we consider that the Proposal provides the Scheme Shareholders with an assured opportunity to exit and monetise their investments in the Company at a fixed and fair and reasonable Offer Price.

Based on the above, we consider that the terms of the Proposal are fair and reasonable so far as the Disinterested Scheme Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Scheme Shareholders to vote in favour of the Scheme at the Court Meeting and of the resolutions in connection with the implementation of the Proposal at the EGM, respectively.

As different Disinterested Scheme Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Disinterested Scheme Shareholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Quam Capital Limited



Leo Chan
Head of Corporate Finance

Mr. Leo Chan is the Head of Corporate Finance of Quam Capital Limited and is licensed under the SFO as a Responsible Officer to carry out, among others Type 6 (advising on corporate finance) regulated activity and has approximately 28 years of experience in corporate finance.