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SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

SUPPLEMENTAL ANNOUNCEMENT

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND SALE LOANS DUE BY THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

Reference is made to the announcement of Shen You Holdings Limited (the “**Company**”) dated 18 August 2020 (the “**Announcement**”) in relation to, among other things, the Acquisition. Unless otherwise defined, 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 in relation to the Acquisition as follows:

THE SALE AND PURCHASE AGREEMENT

Consideration

As disclosed in the Announcement, the Consideration is HK\$14,500,000, which shall be satisfied by the Company by way of allotment and issue of an aggregate of 67,441,860 Consideration Shares, credited as fully paid, at the Issue Price, to the Vendors (and/or their respective nominee(s)). The allocation of the Consideration Shares among each of the Vendors was determined after arm’s length negotiations between the Company and the Vendors in proportion to the Consideration payable to each of Vendor A, Vendor B, Vendor C and Vendor D respectively with reference to (i) the Vendors’ shareholding in the Target Company; and (ii) the respective amount of the Sale Loans agreed to be sold by each of Vendor B, Vendor C and Vendor D.

Basis for determination of the Consideration

The Consideration was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement on normal commercial terms, after taking into account the following:

- (i) the unaudited net asset value of the Target Group of approximately HK\$3,165,000 as at 31 May 2020, for which the Board believes is in line with the industry norm of the business of trading of furnishing and provision of interior design, fitting out and decoration services, given that not much machinery or equipment is required for its business operation;
- (ii) the profit guarantee provided by Vendor A (the "**Profit Guarantee**") in respect of the Guaranteed Profit of HK\$2,000,000 for the 12-month period commencing after the Completion Date;
- (iii) the settlement method of Consideration by way of allotment and issue of the Consideration Shares instead of immediate cash outlay by the Group including, in particular the premium of approximately 13.31% represented by the issue price of HK\$0.215 per Consideration Share over the average closing Share price for the last 30 consecutive trading days up to and including the date of the Sale and Purchase Agreement;
- (iv) the compensation mechanism in favour of the Group in cash by the compensation factor of 7.25 in the event that the Target Group fails to achieve the agreed Guaranteed Profit;
- (v) the Consideration Shares to be allotted and issued to Vendor A upon Completion shall only be delivered if (a) the profit guarantee under the Sale and Purchase Agreement is achieved, or (b) the Guaranteed Profit Compensation has been paid by Vendor A to the Company in the event that the Target Group fails to meet the Guaranteed Profit;
- (vi) the Sale Loans in an aggregate sum of HK\$8,300,000 as at the date of the Sale and Purchase Agreement;
- (vii) the existing market penetration and client base of the Target Group in its sector as well as its long operating track record;
- (viii) the potential financial prospect of the Target Group;
- (ix) the P/E Ratios (as defined below) of several Comparable Companies (as defined below); and
- (x) the other factors as set out in the section headed "Reasons for and benefits of the Acquisition" in the Announcement and this announcement.

In order to assess the fairness and reasonableness of the Consideration, the Board had taken into account that the Consideration represents the price-to-earnings ratio (the "**P/E Ratio**") of 7.25 times of the Guaranteed Profit under the Profit Guarantee. Pursuant to the Profit Guarantee formula, if the Guaranteed Profit cannot be met, the Company will be compensated in cash with 7.25 times of the shortfall of future profit. Should the Target

Company record a loss in its audited consolidated financial statements for the Guaranteed Period, the Actual Profit for such Guaranteed Period shall be deemed as zero and the maximum amount of compensation will be HK\$14,500,000, which is the full amount of the Consideration. Given, in the event that the Guaranteed Profit cannot be met, the Company is not only compensated with the shortfall on dollar-to-dollar basis but 7.25 times of the shortfall and the Consideration will be returned to the Company in full if there is a consolidated net loss for the Target Group for the Guaranteed Period, the Board is of the view that the terms of the Profit Guarantee is favourable to the Company and in the interests of the Company and the Shareholders as a whole.

In assessing the fairness and reasonableness of the said P/E Ratio of 7.25 times, the Board had also taken into account the P/E Ratio of several companies listed on the Stock Exchange which are engaged in the interior design, fitting out and decoration business similar to that of the Target Group (the “**Comparable Companies**”). Set out below is the summary of the P/E Ratios of the nine Comparable Companies:

Company name	Stock code	P/E Ratio (times)^(Note 1)
Steve Leung Design Group Limited (“ Steve Leung Design ”) ^(Note 2)	2262	33.81
Jiyi Holdings Limited (“ Jiyi Holdings ”) ^(Note 3)	1495	34.50 ^(Note 4)
Hope Life International Holdings Limited (“ Hope Life ”) ^(Note 5)	1683	48.75
C Cheng Holdings Limited (“ C Cheng Holdings ”) ^(Note 6)	1486	N/A
K W Nelson Interior Design and Contracting Group Limited (“ K W Nelson ”) ^(Note 7)	8411	7.43
LKS Holding Group Limited (“ LKS Holding ”) ^(Note 8)	1867	102.01
Lai Group Holding Company Limited (“ Lai Group ”) ^(Note 9)	8455	N/A
AL Group Limited (“ AL Group ”) ^(Note 10)	8360	N/A
Sanbase Corporation Limited (“ Sanbase Corporation ”) ^(Note 11)	8501	3.31
	Maximum	102.01
	Minimum	3.31
	Median	34.16
	Mean	38.30

Notes:

1. The P/E Ratio of the Comparable Companies above are calculated based on their respective market capitalisation as at the date of the Sale and Purchase Agreement divided by the audited net profit attributable to owners as extracted from the latest annual reports of the Comparable Companies prior to the date of the Sale and Purchase Agreement. No P/E Ratio is calculated for those Comparable Companies which recorded a loss for the most recent financial year and are marked as “N/A”.

2. As disclosed in the annual report of Steve Leung Design for the year ended 31 December 2019, Steve Leung Design and its subsidiaries are principally engaged in the provision of interior design services, interior decorating and furnishing services and product design services.
3. As disclosed in the annual report of Jiyi Holdings for the year ended 31 December 2019, Jiyi Holdings and its subsidiaries are principally engaged in the sale and distribution of merchandise and the provision of interior design and building engineering services.
4. Conversion of Renminbi into Hong Kong dollars is calculated based on an exchange rate of RMB1.00 to HK\$1.1197.
5. As disclosed in the annual report of Hope Life for the year ended 31 December 2019, Hope Life and its subsidiaries are principally engaged in construction and ancillary services which include design, fitting-out, decoration, alteration and addition, construction and other related businesses, financial business and health business.
6. As disclosed in the annual report of C Cheng Holdings for the year ended 31 December 2019, C Cheng Holdings and its subsidiaries are principally engaged in the provision of comprehensive architectural services and building information modelling services.
7. As disclosed in the annual report of K W Nelson for the year ended 31 December 2019, N W Nelson and its subsidiaries are principally engaged in the provision of interior designs, project management services and fitting-out works in Hong Kong and Mainland China.
8. As disclosed in the annual report of LKS Holding for the year ended 31 March 2020, LKS Holding and its subsidiaries are principally engaged in (i) interior fitting-out and renovation services; and (ii) alteration and addition works for residential, industrial and commercial properties in Hong Kong.
9. As disclosed in the annual report of Lai Group for the year ended 31 March 2020, Lai Group and its subsidiaries are principally engaged in the provision of interior design and fit-out services in Hong Kong.
10. As disclosed in the annual report of AL Group for the year ended 31 December 2019, AL Group and its subsidiaries are principally engaged in the provision of interior design and fit out solutions as well as overall project management in Hong Kong.
11. As disclosed in the annual report of Sanbase Corporation for the year ended 31 March 2020, Sanbase Corporation and its subsidiaries are principally engaged in the provision of interior fit-out solutions in Hong Kong and the PRC.

As shown in the above table, the said P/E Ratio of 7.25 times is well below the mean and median of the P/E Ratios of the Comparable Companies.

The Sale Loans amounted to HK\$8,300,000 as at the date of this announcement; and the Sale Loans shall be assigned to the Company (and/or its nominee) from Vendor B, Vendor C and Vendor D on a dollar-to-dollar basis. As such, the Consideration for the Sale Shares is HK\$6,200,000.

Despite that the Consideration of HK\$14,500,000 represents about 42.77 times of the audited consolidated net profit of the Target Company (excluding listing expenses) for the year ended 31 March 2019 of approximately HK\$339,000, the P/E Ratio of the Target Group implied by the Consideration for Sale Shares (the “**Implied P/E Ratio**”) of HK\$6,200,000 is only approximately 18.29 times based on the audited consolidated net profit of the Target

Company (excluding listing expenses) for the year ended 31 March 2019 of approximately HK\$339,000, which is below the mean and median of the P/E Ratios of the Comparable Companies as set out above.

The Implied P/E Ratio of the Target Group is only 3.10 times based on the Guaranteed Profit of HK\$2,000,000, which is significantly below the mean and median, and slightly below the minimum, of the P/E Ratios of the Comparable Companies as set out above.

In light of the above analysis, the Board is of the view that the Consideration for the Sale Shares and the Sale Loans is fair and reasonable.

Profit guarantee

The amount of the Guaranteed Profit was determined after arm's length negotiations with reference to, among other things, (i) the historical financial performance of the Target Group, (ii) the prospects and development potential of the Target Group and (iii) the current economic environment.

For further details in respect of the ratio 7.25 times in the Guaranteed Profit Compensation calculation determined by the Board, please refer to the paragraph headed "Basis for determination of the Consideration" under this section.

INFORMATION ON THE VENDORS

As at the date of this announcement, DT Capital is interested in 10,308,000 shares, representing approximately 0.81% of the issued share capital, of UBA Investments.

Save as disclosed above and in the Announcement, to the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, there is no other relationship (shareholding, financial, business or otherwise) among the Vendors.

As disclosed in the announcement of the Company dated 4 June 2020, Mr. Leung, who is currently the executive Director, was interested in 50,000,000 rights shares under the then proposed rights issue on the basis of one (1) rights share for every two (2) ordinary shares of the Company in issue.

As disclosed in the annual report of Upbest Group Limited ("**Upbest Group**") for the year ended 31 March 2020, Upbest Securities Company Limited ("**Upbest Securities**"), being the underwriter to the rights issue (the "**Rights Issue**") as disclosed in the announcement of the Company dated 9 April 2020, is a wholly-owned subsidiary of Upbest Group. As confirmed by the Vendors, (i) each of DT Capital and Mr. Leung owns an insignificant of equity interest in Upbest Group; and (ii) each of Vendor A, DT Capital and several of its subsidiaries, UBA Investments and several of its subsidiaries, and Mr. Leung and his wholly-owned company maintains a securities trading account with Upbest Securities, as at the date of this announcement.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, there is no other relationship (shareholding, financial, business or otherwise) among the Vendors and the counterparties of the Rights Issues.

The Company was acquainted with Vendor A through Mr. Leung subsequent to his appointment as an executive Director in early June 2020. Mr. Leung was acquainted with Vendor A and the Target Group through the investment in the Target Group by DT Capital in or around June 2016 during his directorship as an executive director of DT Capital. After entering into of the MOU on 24 June 2020, Vendor A approached Vendor B, Vendor C and Vendor D shortly after in or around late June 2020 for the potential Acquisition, and subsequently introduced Vendor B, Vendor C and Vendor D to the Company in or around early July 2020 to discuss and negotiate the terms of the potential Acquisition.

None of Vendor A or the substantial shareholders of the remaining Vendors will become a controller or an associate of a controller of the Company. As at the date of this announcement, there is no plan to change in the Board composition upon Completion.

FINANCIAL INFORMATION OF THE TARGET GROUP

As confirmed by the Vendors, the listing plan of the Target Group on the Stock Exchange has been shelved since late 2019 due to the prolonged social and political events in Hong Kong, which caused temporary adverse impact on the business performance of the Target Group.

As confirmed by Vendor B and Vendor C, the Target Group was recorded and reflected in the books of UBA Investments and DT Capital as follows:

- (i) the Target Group was recorded in the books of UBA Investments under financial assets at fair value through profit and loss with a fair value of approximately HK\$9,105,000 in relation to the investment cost and under amounts due from investee companies with approximately HK\$2,275,000 in relation to the sale loan based on the audited accounts of UBA Investments as of 31 March 2020; and
- (ii) the Target Group was recorded in the books of DT Capital under financial assets at fair value through profit and loss of approximately HK\$9,318,000 and under amount due from investee company of approximately HK\$2,120,000 based on the unaudited interim results as of 30 June 2020.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board would review the existing businesses of the Group from time to time with a view to improving the business operation and financial position of the Group. The Board considers that it is beneficial for the Group to seek suitable investment opportunities to diversify its existing business into a new line of business with growth potential and to broaden its source of income.

Having regard to micro-economic factors, the Directors consider that there is a growing popularity of interior design, fitting-out and decoration in commercial, residential and public sectors in Hong Kong and the Greater Bay Area to seek individuality and style. In addition, the interior design, fitting out and decoration industry does not require much machinery or equipment, and the supply of designers and workers in the industry is sufficient and easily accessible. The Directors also consider that on top of functionality of furnishing, lifestyle design of the products plays a major part in the selection process nowadays.

The Board is also of the view that amidst the global trade tension, it would be in the interest of the Group to explore additional sources of revenue to prepare for any macro disruption to its current business due to geopolitical tension. The Board understands that the Target Group is under a temporary set-back primarily as a result of the social and political events in Hong Kong since June 2019 and the outbreak of COVID-19 since January 2020. However, given that the Target Group will become wholly-owned subsidiaries of the Company (being a listed company on the Stock Exchange) upon Completion, the Board believes that this would improve the Target Group's ability to access additional means of financing (e.g. bank guarantees when bidding for projects) and also its ability to attract top-graded design professionals. The massive potential offered by the Greater Bay Area is also an area in which the Target Group can explore with the said additional resources. From a macro point of view, with the imminent economic recovery post-epidemic, the Board expects significant fiscal stimulus measures from the Hong Kong Government. With the Target Group's track record in public projects, the Board is confident that it will benefit from such fiscal stimulus.

As confirmed by the Vendors, for the period commencing from 1 April 2020 to the date of this announcement, the Target Group has engaged in the following:

- (i) entered into a total of seven contracts with customers in the residential, commercial and institutional sectors with an aggregate contract sum of approximately HK\$3,452,000;
- (ii) submitted 35 tenders and quotations to potential customers in the commercial and residential sectors in Hong Kong and Macau, of which (a) one tender and five quotations were awarded and accepted with an aggregate tender and quotation sum of approximately HK\$538,000 and HK\$2,851,000 respectively, which are reflected in subparagraph (i) above; and (b) 29 tender and quotation results with an aggregate tender and quotation sum of approximately HK\$52,244,000 are yet to be released; and
- (iii) in the process of negotiations with various potential customers in commercial, residential and institutional sectors in respect of six projects, which include the construction and fitting out of village houses and marine clubhouses, with an expected contract sum which ranges from approximately HK\$4,000,000 to approximately HK\$35,000,000 each, and an expected maximum contract sum of approximately HK\$121,800,000 in aggregate.

In light of the above, the Directors are confident in the prospects of the business of interior design, fitting out and decoration services and trading of furnishing. The Directors also believe that the Group could leverage on the well-established track record of the Target Group of over 10 years and the expertise of the management team of the Target Group to further enhance the value of the Group and maximise the returns to the Shareholders. Hence, the Directors are confident in the prospect and development potential of the Target Group and the Board considers that the Group is expected to be benefited from diversifying its revenue stream through the Acquisition.

Furthermore, Mr. Leung, who is currently the executive Director, acquired relevant experience in running the business of the Target Group during his directorship in DT Capital as an executive director. He was first familiarised with the business of the Target Group through his involvement in the evaluation of the Target Group and the approval of DT Capital's investment in the Target Group in June 2016. Since June 2016, despite that Mr.

Leung has not been a member of the board of directors of the Target Group, Mr. Leung has worked closely with Ms. Chan and Mr. Leong, and has provided his views and recommendations, on matters concerning the business operation of the Target Group from time to time. As disclosed in the Announcement, (i) Ms. Chan is a non-executive director and chairman of DT Capital; (ii) Mr. Leong is an executive director of DT Capital; and (iii) both Ms. Chan and Mr. Leong are directors of each of the Target Company and LMP. Based on the above, the Board considers that Mr. Leung has the relevant experience in running the business of the Target Group. The Group also intends to recruit additional personnel with relevant experience and expertise after Completion if necessary, taking into account, among other things, the business development of the Target Group as well as the financial condition and future expansion plan of the Group.

As at the date of this announcement, save for the Acquisition, the Company has no intention, understanding, negotiation, arrangement, agreement (concluded or otherwise) to (i) downsize or cease or scale-down any of the existing businesses or assets of the Group, and (ii) inject any new business or material assets to the Group.

The additional information set out above does not affect other information contained in the Announcement and the contents in the Announcement remain unchanged.

By order of the Board
Shen You Holdings Limited
Wong Kwok Wai, Albert
Chairman, chief executive officer and executive Director

Hong Kong, 7 September 2020

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Wong Kwok Wai, Albert, Mr. Chan Yiu Tung, Enoch and Mr. Leung King Yue, Alex and four independent non-executive Directors, namely, Dr. Yeung Ngai Man, John, Mr. Sung Alfred Lee Ming, Mr. Chan Tsun Choi, Arnold and Mr. Chow Chin Hang, Joel.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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