

SMJ INTERNATIONAL HOLDINGS LTD.
(Company Registration Number 201334844E)

- (1) **PROPOSED SUBSCRIPTION OF EQUITY INTEREST IN THE CAPITAL OF BEIJING LIBRE COMMERCIAL MANAGEMENT CO. LTD.**
 - (2) **PROPOSED CALL OPTION TO ACQUIRE ALL OF THE ISSUED AND PAID-UP SHARE CAPITAL OF LIBRE HOSPITALITY LIMITED**
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1. INTRODUCTION

The Board of Directors (the “**Director**” or the “**Board**”) of SMJ International Holdings Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s wholly owned subsidiaries, Elite Management (Singapore) Pte. Ltd. (“**EMSP**”) and Beijing Zhuoyue Tiancheng Business Management Co. Ltd. (“**BJZY**”) have on dated 21 July 2018 entered into two agreements in relation to the proposed acquisition of Beijing Libre Commercial Management Co. Ltd. (北京丽柏乐商业管理有限公司) (“**Libre Beijing**”).

The transaction documents (“**Transaction Documents**”) comprise of (i) a Subscription and Shareholders’ Agreement (“**SSHA**”) dated 21 July 2018 between BJZY, Libre Beijing and Mr Zhang Li (“**Mr Zhang**”); and (ii) a Call Option Agreement (“**COA**”) dated 21 July 2018 between EMSP, Mr Zhang and Active Courage International Limited (“**BVI SPV**”).

The proposed transactions (“**Proposed Transactions**”) contemplated in the Transaction Documents comprise of the following:-

- (a) The subscription by BJZY of new equity interest in Libre Beijing as comprise 52% of the enlarged equity interest in Libre Beijing, for an aggregate consideration of RMB15.59 million (equivalent to approximately S\$3.18 million) (the “**Proposed Subscription**”). Therefore, immediately upon completion of the Proposed Subscription, Libre Beijing will be owned 52% by BJZY and 48% by Mr Zhang;
- (b) The grant by Mr Zhang and the BVI SPV, collectively, of an option (“**Call Option**”) to EMSP to acquire all of the issued share capital in Libre Hospitality Limited (“**HK SPV**”), which will upon completion of a restructuring exercise in turn hold 48% of the remaining equity interest in Libre Beijing to EMSP (the “**Proposed Call Option**”) not held by BJZY. In this regard, Mr Zhang will procure a restructuring exercise within 30 days after the completion of the Proposed Subscription, such that all the remaining 48% issued equity in Libre Beijing owned by him will be transferred to and eventually held by the HK SPV. The HK SPV will in turn be wholly owned by the BVI SPV which will in turn be wholly owned by Mr Zhang;

The Proposed Transactions constitutes a disclosable transaction under Rule 1006 of the Catalist Rules.

For purposes of this Announcement, the exchange rate between RMB and S\$ is S\$1 to RMB 4.9.

2. INFORMATION ON LIBRE BEIJING, THE HK SPV AND THE BVI SPV

2.1 Information on Libre Beijing and its Management Team

Libre Beijing is a private limited liability company incorporated under the laws of the People’s Republic of China (“**PRC**”) on 21 September 2015. As at the date of this announcement, it has a registered and paid-up capital of RMB5 million and is wholly owned by Mr Zhang.

As at the date of this announcement, Libre Beijing holds the following subsidiaries, all of which are established under the laws of the PRC:

- (a) 100% in Beijing Libre Hotel Management Co. Ltd.(北京丽柏乐酒店管理有限公司);
- (b) 100% in Beijing Tangzhi Xinyu Hot Spring Enterprise Management Co. Ltd.(北京汤之新语汤泉企业管理有限公司);
- (c) 100% in Huangshan Lanzhitang Enterprise Management Co. Ltd.(黄山岚之汤企业管理有限公司); and
- (d) 100% in Lijiang Lanzhitang Management Co. Ltd.(丽江岚之汤管理有限公司).

Libre Beijing and its subsidiaries (“**Target Group**”) are in the business of hospitality facilities management, including the management of hotels and resorts, provision of consultancy service on hotel and resorts management, investment, development and branding. The Target Group develop its own brands catering for mid-to-high end hotels and resorts targeting at growing Chinese travelers. The Target Group manages the hotels through the appointment of key on-site managers and help train other staff to ensure a high level of service and consistent guest experience across all the hotels. The Target Group collects fees from the hotel owners or operators based on the revenue and operating performance of the hotels in accordance to the terms of the hotel management agreements. In addition, Libre Beijing also manages spa facilities services in China via its subsidiaries.

As at the date of this Announcement, Libre Beijing, either directly or through its subsidiaries, have secured four hotel management contracts and the location of the four hotels are in Huangshan, Huanglong, Changchun and Lijiang respectively.

The management team of Libre Beijing comprised a team with extensive experience in the management and operation of hotels. Mr Zhang is the sole shareholder and is one of the founders. He is the Chief Financial Officer of Libre Beijing and currently responsible for strategic planning, capital market operations and the finance functions of Libre Beijing. Mr David Cheng is the CEO and President of the Libre Beijing. He has over 27 years of experience with global hotel brand and real estate companies, such as Jinmao, Wanda, Thaihot Group in China. As one of the pioneers in the China hospitality industry, Mr Cheng successfully launched many landmark hotels such as Grand Hyatt Shanghai, Hilton Sanya Yalongbay Resort & SPA and Westin Beijing Chaoyang. During his career at Wanda Hotels & Resorts, he founded Wanda branded hotels which is a remarkable milestone in the China hospitality industry. Mr Cheng contributes to the Group through his profound knowledge and rich experience in hotel management and development of hospitality real estates as well as corporate and brand strategy. Mr Andy Liu is the Vice President of Libre Beijing and has over 22 years of experience in leading global hotel brands and commercial real estate companies, such as Starwood, Intercontinental, Wanda, Thaihot and NHA Hospital Group. Mr Cheng is highly experienced is global sales and marketing strategy for high-end luxury hospitality brands.

Mr Zhang is not related to any of the Company’s Directors, Substantial Shareholders, Controlling Shareholders or their respective associates. As at the date of this Announcement, to the best of the knowledge of the Company, Mr Zhang does not hold any shares in the Company.

2.2 INFORMATION ON THE HK SPV AND THE BVI SPV

Under the terms of COA, Mr Zhang will undertake a restructuring exercise to transfer 48% of Libre Beijing’s enlarged equity to the HK SPV. The HK SPV will in turn be wholly owned by the BVI SPV which will in turn be wholly owned by Mr Zhang.

The HK SPV is an investment holding company incorporated in Hong Kong, and that upon completion of the Restructuring Exercise it will be the legal and beneficial owner of the 48% of the issued equity in Libre Beijing and has no other material assets and liabilities.

3. **RATIONALE FOR THE PROPOSED TRANSACTIONS**

Following the completion of the disposal of SMJ Furnishings (S) Pte Ltd ("**SMJ Furnishings**") on 16 January 2018, the Company has switched from the carpet furnishing business and has been focusing its resources and attention on the development of new business industries.

On 26 December 2017, the Company announced that it had obtained the approval of the shareholders of the proposed diversification of the business scope of the Group to include the Proposed New Business Scope, which covers a spectrum of business sectors, such as interior design consultancy, food and beverage management, management and consultancy services in the tourism and hospitality industry.

In their continued search for a new business to revitalise the Group and to bring in more revenue and income streams, the Directors have been exploring opportunities in those business industries. The Company believe that there are significant opportunities in the Chinese tourism and hospitality industries.

The China's domestic tourism industry earned 4.57 trillion yuan (US\$720 bn) with 5 billion domestic trips made in 2017, up 16% and 13%, respectively, according to data from China National Tourism Administration (CNTA). The China national 13th five-year plan (2016-20) highlights proposals to develop more domestic holiday destinations, such as hot springs, ski resorts, beaches, islands, mountains and forests, making the tourism industry a key driving force for economic restructuring and upgrading. Over the past few years, the Chinese government has consistently reiterated its commitment to encourage domestic consumption and further develop the consumer service industry. This bodes well for the long-term outlook for hospitality industry, which creates job opportunities and additional spending on food and beverage, tourism and discretionary items. Continued policy support for domestic consumption upgrade will contribute to the growth of hospitality expenditures in China.

The Target Group is managed by an experienced management team and many of them have worked in well-established hotel chains before. The Target Group business model is asset-light and fits the current capital structure of the Company. The hospitality industry in China has been increasingly moving towards the franchised business model, where hotel groups expand their geographic coverage to increase market share in lower-tier cities. Hotel groups can also benefit from receiving a higher percentage of recurring revenue from franchisees with much less operational and financial risk or upfront costs. The franchised model is a scalable and asset-light business model that enables hotel groups to rapidly expand the hotel networks while benefiting from economies of scale that is inherent in the franchising business. Similarly, the Target Group aims to expand its hotel network through securing more management contracts without significant upfront investments. The Target Group has entered into four long term hotel management agreements and these management agreements will ensure that Libre Beijing has a steady stream of revenue, providing the Group with a recurring source of income.

The Proposed Transactions are in line with the Group's strategic plans to expand its core business and represent an excellent opportunity for the Company to venture into new areas that have the potential for growth. This will enable the Company to enhance shareholders' value and generate renewed investor interest in the shares of the Company. Finally, the Proposed Call Option allows the Company to maintain the flexibility and adjust the pace of investment according to the achievement of key performance indicators by the Libre Beijing's management team.

Therefore, the Directors are of the view that the Proposed Transactions are beneficial to the Company and likely to enhance the long-term interests of the Company and the Shareholders.

4. DETAILS OF THE PROPOSED TRANSACTIONS

4.1 SSHA

The salient terms of the SSHA are, *inter alia*, as follows:

4.1.1 Proposed Subscription

BJZY shall subscribe for 52% of the enlarged equity interest in Libre Beijing.

It is a term of the SSHA that subject to Completion (as defined below), all risks and rewards of Libre Beijing as from 1 July 2018 shall be shared between BJZY and Mr Zhang in accordance to the shareholding proportion of 52:48.

4.1.2 Consideration for the Proposed Subscription

The consideration payable for the Proposed Subscription is RMB15.59 million (equivalent to approximately S\$3.18 million), of which RMB5.42 million (equivalent to approximately S\$1.1 million) and will be applied to increase the equity capital of Libre Beijing and RMB 10.17 million (equivalent to approximately S\$2.07 million) will applied towards the capital reserve of Libre Beijing. The proceeds from the Proposed Subscription will be applied to recapitalise Libre Beijing and used for working capital purposes.

It is a term of the SSHA that the valuation of Libre Beijing before the Proposed Subscription shall be no less than RMB14.39 million (equivalent to approximately S\$2.53 million).

4.1.3 Conditions Precedent

Completion of the Proposed Subscription ("**Completion**") shall be subject to, *inter alia*, the following conditions precedents (the "**Conditions Precedent**"):

- (a) all relevant government authorities having approved the Proposed Subscription;
- (b) there not being at any time prior to Completion any legal restriction, limitation, prohibition, prohibiting the entry into or performance by BJZY of its obligations under the SSHA or increasing BJZY's investment cost;
- (c) each party to the SSHA having obtained all relevant corporate approvals and authorisations;
- (d) Mr Zhang being and remaining the sole shareholder of Libre Beijing;
- (e) BJZY and any other member within the Group having completed necessary authorisations in relation to the Proposed Subscription, including the approval of the Company's Shareholders at an extraordinary general meeting (if required);
- (f) all necessary third party consents, approvals and waivers where required for the transactions contemplated under the SSHA having been obtained;
- (g) there has been no occurrence of any Material Adverse Change event (as defined in the SSHA) of Libre Beijing since its incorporation date;

- (h) each of the representations, undertakings and warranties provided by Libre Beijing and Mr Zhang remain true, accurate and correct from execution of the SSHA until and (including at) the date of Completion;

4.1.4 Shareholders' Agreement

The SSHA also contains provisions in relation to the regulation of the affairs of Libre Beijing and the powers of the board of directors and shareholders of Libre Beijing after the Completion. In particular, after the Completion, the board of Libre Beijing shall comprise of three (3) directors, two (2) of whom shall be appointed by BJZY. BJZY shall also have the right to appoint the CFO of Libre Beijing.

4.2 **COA**

The salient terms of the COA are, *inter alia*, as follows:

4.2.1 Call Option

Within 30 days after the Completion, Mr Zhang will undertake a restructuring exercise, such that all of the remaining issued equity in Libre Beijing not held by BJZY, which will comprise 48% of Libre Beijing's enlarged equity, will be transferred to and eventually held by the HK SPV. The HK SPV will in turn be wholly owned by the BVI SPV which will in turn be wholly owned by Mr Zhang.

Under the terms of the COA, Mr Zhang and the BVI SPV (collectively, "**the Vendors**") have granted to EMSP a Call Option to acquire all of the issued shares in the HK SPV ("**Option Shares**"), which at such time will be holding the remaining 48% of the enlarged equity interest in Libre Beijing.

The Call Option is exercisable by EMSP in whole or in part at any time, and from time to time, commencing from the date of the COA and will expire five (5) years thereafter ("**Option Period**").

Completion of the sale and purchase of the Option Shares shall take place at a place and time as shall be agreed but in any event no later than the 60 days from the exercise of Call Option from time to time ("**Option Share Completion Date**").

4.2.2 Consideration

The consideration of the Option Shares ("**Option Consideration**") shall be based on the valuation of HK SPV which is set at **seven (7) times multiple of ANPAT** (as defined below), proportionately adjusted for the percentage of the HK SPV's shares acquired and the aggregate Option Consideration payable for the acquisition of the entire issued share capital in the HK SPV shall not, in any event, exceed the Maximum SMJ Share Consideration (as defined below).

Under the terms of the COA, "**ANPAT**" means the audited consolidated net profit after taxes of HK SPV, Libre Beijing and subsidiaries of Libre Beijing for the just completed financial year, less minority interest, at the time the Call Option is exercised by EMSP, determined in accordance with International Financial Reporting Standards.

4.2.3 Consideration Share Price, Maximum Consideration Shares and Maximum SMJ Share Consideration

It is the intention of the parties that the Option Consideration will be paid by way of issue of new ordinary shares in the capital of the Company ("**Consideration Shares**") to the

Vendors or their designated nominees as they may direct.

For the purpose of calculating the number of Consideration Shares to be issued for payment of the Option Consideration, the parties agreed that the Consideration Shares shall be priced at S\$0.12 ("**Consideration Share Price**"), which is based on approximately 95% of the volume weighted average trading price of S\$0.126 of the Company's shares for trades done on the Catalist of the SGX-ST on 19 July 2018, being the last full market day of trading prior to the Company's trading halt on 20 July 2018.

In addition, the parties also agreed that the aggregate number of Consideration Shares issued to the Vendors for the acquisition of the entire issued share capital in Libre HK will not exceed 33,270,000 ("**Maximum Consideration Shares**").

Accordingly, the aggregate Option Consideration to be received by the Vendors by way of Consideration Shares will be accordingly be capped by the following amount ("**Maximum SMJ Share Consideration**"):

33,270,000 X Consideration Share Price of S\$0.12

and where there remains any Option Shares not acquired in the circumstances where the Maximum SMJ Share Consideration has been paid or issued then to facilitate the acquisition of the remaining Option Shares, each acquisition the remaining Option Shares shall be at a nominal consideration of S\$1 per purchase upon each exercise of the Call Option, irrespective of the number of Option Shares to be acquired for such exercise.

4.2.4 Timing of Issuance of Consideration Shares

It is the intention of the parties that the Company will at no time issue shares as to transfer a controlling interest in itself to the Vendors. Toward this end, it has been agreed by the parties that where at any time the issuance of all Consideration Shares to which the Vendors are entitled upon the exercise of the Call Option would, with the Vendors then interest in Company's shares amount to more than 14.9% of the issued share capital of Company, then EMSP shall be entitled to defer the issuance of such part of the Consideration Shares as not to result in the Vendors' aggregate interest in the Company's shares (including the Consideration Shares issued) exceeding 14.9%. EMSP will, as soon as practicable upon being notified by the Vendors that the Vendors interest in shares of the Company has decreased, issue such outstanding Consideration Shares.

4.2.5 Restrictions on voting rights

Under the COA, the Vendors agree they shall not exercise any voting rights attached to their interest in the Company's shares in connection with any resolution at a general meeting of Shareholders to appoint or terminate any Director. The Vendors also agreed that they shall not seek any board representation nor appoint any nominee to the Board save with the consent of the Company.

4.2.6 Other provisions on issuance of Consideration Shares

The COA further provides that in the event of any consolidation or subdivision of the Company's shares, the number of Consideration Shares, Option Shares and Maximum SMJ Share Consideration shall be pro-rated adjusted. Any Consideration Shares to be issued under the COA to the Vendors shall be rounded down to the nearest thousands of Consideration Shares.

4.2.7 Moratorium on Consideration Shares

The Vendors have provided a moratorium undertaking in respect of Consideration Shares to be issued and that they shall not transfer, assign, sell or otherwise dispose of all or any part of the Consideration Shares issued to them for the period of three (3) months from the date of issuance of such Consideration Shares.

4.2.8 Conditions to Completion

The obligation of EMSP to consummate the completion of the sale and purchase of the Option Shares ("**Option Share Completion**"), notwithstanding any specific exercise of the Call Option, is subject to the fulfillment of each of the following further conditions to the satisfaction of EMSP at or prior to the Option Share Completion, unless otherwise waived by EMSP:

- (a) The representations and warranties of the Vendors contained in the COA shall be true, accurate, complete and not misleading at and as of the Option Share Completion Date as if made at and as of such date;
- (b) the approval by the board and the shareholders (if required) of EMSP and the Company having been obtained in relation to the exercise of Call Option and the issue of the Consideration Shares and such approval remaining valid;
- (c) the approval of the SGX-ST for the listing and quotation of the Consideration Shares on the Catalist Board having been obtained and not having been revoked or amended and, where approval is subject to conditions (in respect of such conditions which are not normally imposed by the SGX-ST for a transaction of a similar nature), such conditions being reasonably acceptable to the Company and, to the extent that any conditions for the listing and quotation of the Consideration Shares on the Catalist Board are required to be fulfilled on or before the Option Share Completion, they are so fulfilled;
- (d) there not being at any time prior to Option Share Completion any restriction, limitation, prohibition or directive, whether written or verbal, from the SGX-ST limiting prohibiting the entry into or performance by EMSP of its obligations under the COA; and
- (e) all necessary third party, governmental and regulatory consents, approvals and waivers where required for the transactions contemplated hereunder having been obtained, and such consents, approvals and waivers not having been amended or revoked before the Option Share Completion Date.

4.3 **Basis of the aggregate consideration for the Proposed Transactions**

The aggregate consideration for the Proposed Transactions was arrived at, following arm's length negotiations between BJZY, Libre Beijing and Mr Zhang and taking into account a valuation of the Target Group, the track record of the management team, the four secured hotel management contracts and the current financial conditions of the Company. The valuation was carried out by Zhong Hua Asset Appraisals ("**Zhong Hua**") and has been determined, as at 6 July 2018, to be approximately RMB28.6 million (equivalent to approximately S\$5.8 million), based on a discounted cash flow valuation method, and to be approximately RMB7.9 million (equivalent to approximately S\$1.7million) based on a replacement cost valuation method.

Zhong Hua discounted cash flow valuation method assume a progressive improvement Libre Beijing earnings as its business operations grow and achieve economy of scale. The initial years of

operations were driven by start-up losses and investments in branding and developing a robust platform for the hotel management business. As the number of hotels under management increases, Libre Beijing revenue growth is projected to accelerate. Therefore, Zhong Hua conclude that the discount cash flow method is more appropriate than the replacement costs method, and better reflect the operations and valuation of Libre Beijing.

The Company notes that the Target Group has secured four long term hotel management contracts which, barring unforeseen circumstances, are expected to provide a steady stream of revenue for Libre Beijing and in turn for the Group. Two hotels are already in operation and while another two hotels projected to commence operation in 2019. Libre Beijing management have demonstrated a good track record in securing new hotel management contracts and managing the operation of its existing hotels. Finally, Libre Beijing is on track to secure another two hotel management contracts in the next 12 to 18 months.

5. CATALIST RULES' IMPLICATIONS

5.1 Chapter 10

Chapter 10 of the Catalist Rules governs the continuing listing obligations of a listed company in respect of acquisitions and realisations. Under Rule 1014, shareholders' approval must be obtained for 'major transactions'. Rule 1006 sets out the computation for relative figures. Shareholders' approval is required if any of the relative figures for the proposed transaction as computed on the basis set out in Rule 1006 exceeds 75% and such a transaction is classified as a 'major transaction'.

The relative figures for the Proposed Transactions, computed on the bases set out in Rule 1006 the Catalist Rules and based on the Company's unaudited consolidated financial statements for the 6 months ended 30 June 2018 are set out below.

- (I) **Scenario A:** Assuming that EMSP does not exercise at all the Call Option, and accordingly, the total consideration is the Equity Subscription Consideration, being RMB 15.59 million (equivalent to approximately S\$ 3.18 million) is paid by the Group to acquire 52% of the Target:

Rule 1006	Bases	Relative Figures (%)
Rule 1006(a) ⁽¹⁾	The NAV of the assets to be disposed of, compared with the Group's NAV	Not applicable
Rule 1006(b)	The net profits ⁽²⁾ attributable to the assets to be acquired (S\$27,400), compared with the Group's net profits (approximately S\$102,000)	27%
Rule 1006(c) ⁽³⁾	The aggregate value of the net consideration given (S\$3.18million) compared with the Company's market capitalization of approximately (S\$9.83 million)	32%
Rule 1006(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities of the Company previously in issue	Not applicable

Notes:-

- (1) This basis is not applicable to the Proposed Acquisition.
- (2) Pursuant to Rule 1002(3)(b) of the Catalyst Rules, "net profits" means profit before income tax, minority interests and extraordinary items.
- (3) The aggregate value of the Proposed Subscription is RMB15.59 million (approximately S\$3.18 million), compared to the Company's market capitalisation of S\$9.83 million (based on the volume weighted average price of S\$0.126 on 19 July 2018, being the last market day on which the shares of the Company were traded and 78 million shares in issue).

Having regard to the above, the Proposed Transactions (excluding the Proposed Call Option) is a discloseable transaction in accordance with the Catalyst Rules.

- (II) **Scenario B:** Assuming that EMSP exercises the Call Option in full after the completion of Proposed Subscription, and further assuming that the Option Consideration is the Maximum Option Consideration of S\$3.99 million. Accordingly, the combined value of the Equity Subscription Consideration and Maximum Option Consideration, amounting in aggregate S\$7.17 million is paid by the Group to acquire 100% of the Target:

Rule 1006	Bases	Relative Figures (%)
Rule 1006(a) ⁽¹⁾	The NAV of the assets to be disposed of, compared with the Group's NAV	Not applicable
Rule 1006(b)	The net profits ⁽²⁾ attributable to the assets to be acquired (S\$52,692), compared with the Group's net profits (S\$102,000)	52%
Rule 1006(c) ⁽³⁾	The aggregate value of the net consideration given (S\$7.17 million) compared with the Company's market capitalization of approximately (S\$9.83 million)	73%
Rule 1006(d) ⁽⁴⁾	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities of the Company previously in issue	43%

Notes:-

- (1) This basis is not applicable to the Proposed Acquisition.
- (2) Pursuant to Rule 1002(3)(b) of the Catalyst Rules, "net profits" means profit before income tax, minority interests and extraordinary items.
- (3) The aggregate value of the net consideration of S\$7.17 million includes the Proposed Subscription of RMB15.59 million (approximately S\$3.18 million) and the maximum SMJ Share Consideration of S\$3.99 million, via the issue of 33.27 million new SMJ share at an issue price of S\$0.12. The Company's market capitalisation is S\$9.83million (based on 78 million shares in issue and the volume weighted average price of S\$0.126 on 19 July 2018, being the last market day on which the shares of the Company were traded).
- (4) Based on the Maximum Consideration Shares of 33.27 million and 78 million shares of the Company previously in issue.

Having regard to the above, the Proposed Transactions (including the Proposed Call Option and further assuming that the Call Option is exercised by EMSP in full) also falls within a discloseable transaction in accordance with the Catalist Rules.

6. FINANCIAL INFORMATION

6.1 Net Loss Attributable to Target Group

Based on the proforma management accounts of Target Group for the full year ended 31 December 2017, the net loss after tax attributable to the shareholder of Libre Beijing was approximately RMB 5.63 million (equivalent to approximately S\$1.15mn).

6.2 Financial Effects

The financial effects of the Proposed Transactions on the Group as set out below are for illustrative purposes only and do not reflect the actual financial performance or position of the Group after the Proposed Transactions. The financial effects set out below have been prepared on a *pro forma* basis using the latest audited consolidated financial statement of the Group for the most recently completed financial year, being FY2017.

The *pro forma* financial effects of Scenario A and Scenario B are respectively set out in sections (I) and (II) below so as to illustrate the impact of the exercise of Call Option by EMSP.

- (I) **Scenario A:** Assuming that EMSP does not exercise the Call Option, and accordingly, the total consideration is the Equity Subscription Consideration, being RMB15.59 million (equivalent to approximately S\$3.18 million is paid by the Group) to acquire 52% of the Target:

6.2.1 Share capital

Scenario A has no impact on the Company's share capital.

6.2.2 NTA

Assuming that the Proposed Subscription had been completed on 31 December 2017 and based on the Group's audited consolidated financial statements for FY2017, the effects on the NTA per share of the Group are as follows:

As at 31 December 2017	Pre-Scenario A	Post-Scenario A
NTA (S\$'000)	16,413	12,954
Number of issued shares (million)	78	78
NTA per share (Singapore cents)	21.0	16.6

6.2.3 EPS

Assuming that the Proposed Subscription has taken place on 1 January 2017 and based on the Group's consolidated financial statements for FY2017, the Proposed Subscription would have the following effects on the Group's earning/loss per share as presented in the following table:

FY2017	Pre-Scenario A	Post-Scenario A
Profit/(Loss) after tax attributable to Shareholders (S\$'000)	303	(294)
Weighted average number of Shares (million)	78	78
Earning/(Loss) per Share (Singapore cents)	0.39	(0.38)

6.2.4 Gearing

Assuming that the Proposed Subscription had been completed on 31 December 2017, the effect of Scenario A on the gearing of the Group as at 31 December 2017 would have been as follows:

As at 31 December 2017	Pre-Scenario A	Post-Scenario A
Net Debt (S\$'000)	0	0
Shareholders' Funds (S\$'000)	16,413	16,413
Gearing ⁽¹⁾ (times)	0	0

Note:-

(1) "Gearing" means the ratio of net debt to Shareholders' Funds. Net debts refer to interest bearing borrowings less cash and bank balances.

- (II) **Scenario B:** Assuming that EMSP exercises the Call Option in full after the completion of Proposed Subscription, and further assuming that the Option Consideration is the Maximum Option Consideration of S\$3.99 million. Accordingly, the combined value of the Equity Subscription Consideration and Maximum Option Consideration, amounting in aggregate S\$7.17 million is paid by the Group to acquire 100% of the Target:

6.2.5 Share capital

Under scenario B, the aggregate amount of consideration payable under the SSHA and the COA will be S\$7.17 million and the total number of Consideration Shares to be issued as part of the consideration will be 33.27 million.

The Company's issued share capital will be increased from 78 million shares as at the date of this Announcement to 111.27 million shares. The Consideration Shares represent approximately 43% of the existing issued share capital of the Company as at the date of this Announcement, and approximately 29.9% of the enlarged issued share capital of the Company following completion of the Proposed Transactions.

The list of substantial shareholders of the Company before the Proposed Transactions are as follows:

Name of Substantial Shareholders	Direct Interest		Deemed Interest	
	Number of Shares (million shares)	% ⁽¹⁾	Number of Shares (million shares)	% ⁽¹⁾
Zhang Tianbao	23.36	29.95	-	-
Ho Pei Yuen Rena	12.80	16.41	-	-
Lu Ning	8.91	11.42	-	-
Yang Wei	5.60	7.18	-	-

Note:

- (1) Based on the Company's issued and paid-up share capital of 78.0 million shares before the completion of the Proposed Transactions.

Assuming and on the basis that:

- (1) EMSP exercises the Call Option in full after the completion of Proposed Subscription,
- (2) that the Option Consideration is the Maximum Option Consideration of S\$3.99 million,
- (3) that the Option Consideration has been issued in more than one tranche, such that the Vendors do not at any one time hold more than 14.9% in the issued share capital in the Company, and
- (4) that the Vendors do not at the date of this Announcement hold any interest in the issued shares in the Company

the list of substantial shareholders of the Company after the Proposed Transactions would be as follows:

Name of Substantial Shareholders	Direct Interest		Deemed Interest	
	Number of Shares (million shares)	%	Number of Shares (million shares)	%
Zhang Tianbao	23.36	20.99	-	-
The Vendors	16.58	14.90	-	-
Ho Pei Yuen Rena	12.80	11.50	-	-
Lu Ning	8.91	8.01	-	-
Yang Wei	5.60	5.03	-	-

SMJ would ensure that the Proposed Transactions would not result in less than 10% of the total shares issued excluding treasury shares (excluding preference shares and convertible equity securities) in a class that is listed being itself at all times held by the public.

6.2.6 NTA

Assuming that the Proposed Subscription and Proposed Call Option had been completed on 31 December 2017 and based on the Group's audited consolidated financial statements for FY2017, the effects on the NTA per share of the Group are as follows:

As at 31 December 2017	Pre-Scenario B	Post-Scenario B
NTA (S\$'000)	16,413	12,968
Number of issued shares (million)	78.0	111.27
NTA per share (Singapore cents)	21.0	11.4

6.2.7 EPS

Assuming that the Proposed Subscription and Proposed Call Option has taken place on 1 January 2017 and based on the Group's consolidated financial statements for FY2017, the Proposed Subscription and Proposed Call Option would have the following effects on the Group's earning/loss per share as presented in the following table:

FY2017	Pre-Scenario B	Post-Scenario B
Profit after tax attributable to Shareholders (S\$'000)	303	(846)
Weighted average number of Shares (million)	78.0	111.27
Earning/(Loss) per Share (Singapore cents)	0.39	(0.76)

6.2.8 Gearing

Assuming that the Proposed Subscription and Proposed Call Option had been completed on 31 December 2017, the effect of Scenario B on the gearing of the Group as at 31 December 2017 would have been as follows:

As at 31 December 2017	Pre-Scenario B	Post-Scenario B
Net Debt (S\$'000)	0	0
Shareholders' Funds (S\$'000)	16,413	20,405
Gearing ⁽¹⁾ (times)	0	0

Note: -

- (1) "Gearing" means the ratio of net debt to Shareholders' Funds. Net debts refer to interest bearing borrowings less cash and bank balances.

7. **SOURCE OF FUNDS FOR THE PROPOSED TRANSACTIONS**

The Group plans to finance the Proposed Transactions through the proceeds from the earlier disposal of SMJ Furnishings, balance of the unutilized IPO proceeds and by the issue of Consideration Shares.

The Directors are of the opinion that, after taking into consideration the present bank facilities, the working capital available to the Group is sufficient to meet its present requirements.

8. OTHER MATTERS

8.1 Interests of Directors and Substantial Shareholders

None of the Directors or controlling shareholders of the Company has any direct or indirect interest in the Transaction Documents or the Proposed Transactions, other than through their respective shareholdings in the Company.

8.2 Additional Listing Application

The Company will be applying to the SGX-ST for the in-principle approval and listing and quotation of the Consideration Shares on the Catalist of the SGX-ST in due course and will make the necessary announcements once the in-principle approval and the Listing and Quotation Notice for the listing and quotation of the Consideration Shares have been obtained from the SGX-ST.

8.3 Service Contracts of the Directors

No other person is proposed to be appointed as a Director of the Company or any of its subsidiaries in connection with the Proposed Transactions.

8.4 Directors responsibility statement

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries, that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Transaction Documents and the Proposed Transactions, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in this announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this announcement in its proper form and context.

8.5 Cautionary Statement

Shareholders should note that the Proposed Transactions are subject to fulfilment of certain conditions. There is no certainty or assurance as at the date of this announcement that the Proposed Transactions will materialize. Meanwhile, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Company's securities. Shareholders should consult their stockbrokers, solicitors or other professional advisers if they have any doubts about the actions they should take.

8.6 Documents available for inspection

A copy of the following documents will be available for inspection during normal business hours at the Company's registered office at 80 Raffles Place, #11-20, UOB Plaza, Singapore 048624 for three (3) months from the date hereof.

- (a) SSHA;
- (b) COA; and
- (c) Valuation Report.

BY ORDER OF THE BOARD

Peng Fei
Executive Director and Chief Executive Officer

23 July 2018

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, Hong Leong Finance Limited (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalyst. The Sponsor has not independently verified the contents of this announcement.*

This announcement has not been examined or approved by SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Tang Yeng Yuen, Vice President, Head of Corporate Finance, at 16 Raffles Quay, #01-05 Hong Leong Building, Singapore 048581, telephone: +65 6415 9886.