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Yestar Healthcare Holdings Company Limited

巨星醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2393)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION: DISPOSAL OF THE TARGET SHARES IN THE TARGET COMPANIES

THE DISPOSAL

The Board is pleased to announce that on 30 December 2022 (after trading hours), the Vendor and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire the Target Shares at a Consideration of RMB574,750,000. Upon Completion, the Company will cease to hold any equity interests in the Target Companies. Accordingly, the Target Companies will cease to be the subsidiaries of the Company and will no longer be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in the Listing Rules) exceeds 75%, the Disposal and the transactions contemplated thereunder constitute a very substantial disposal on the part of the Company under Chapter 14 of the Listing Rules and are subject to the announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Purchaser was appointed as an executive Director of the Company on 18 June 2021 and resigned on 31 December 2021. Therefore, given that the Purchaser was a Director in the last 12 months, the Purchaser is a connected person of the Company pursuant to the Listing Rules. The Disposal therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder. The Independent Board Committee comprising all independent non-executive Directors, namely Dr. Hu Yiming, Mr. Zeng Jinsong and Mr. Sutikno Liky, has been established to make recommendation to the Independent Shareholders regarding the Disposal. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further information of the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) financial information of the Disposal Group and the Remaining Group and other information as required under the Listing Rules; and (iii) a notice of the EGM is expected to be despatched to the Shareholders on or before 10 February 2023.

The transactions contemplated under the Equity Transfer Agreement are conditional upon the satisfaction of the conditions as set out in the section headed “Equity Transfer Agreement — Conditions precedent” in this announcement, and thus the transactions contemplated under the Equity Transfer Agreement may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 30 December 2022 (after trading hours), the Vendor and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire the Target Shares at a Consideration of RMB574,750,000. Upon Completion, the Company will cease to hold any equity interests in the Target Companies. Accordingly, the Target Companies will cease to be the subsidiaries of the Company and will no longer be consolidated into the financial statements of the Group.

EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out below:

Date:

30 December 2022 (after trading hours)

Parties

Vendor: Yestar Medical

Purchaser: Mr. Li Bin

Asset to be disposed of

The Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Target Shares under the terms and conditions as set out in the Equity Transfer Agreement.

Consideration

The Consideration is RMB574,750,000. For the avoidance of doubt, the Purchaser agreed to pay the Consideration less the outstanding amount of RMB131,250,000 and the interest expenses to be paid by the Vendor to the Purchaser in accordance with the 2020 Equity Transfer Agreement (the “**Actual Payment**”).

The Consideration was determined after arm’s length commercial negotiations between the Vendor and the Purchaser based on normal commercial terms, with reference to, among other things, (i) the price-to-earnings (“**P/E**”) ratios of comparable companies in the market; (ii) the historical earnings of the Target Companies, in particular the revenue, profit before the taxation and non-IFRS measure adjusted profit of the Target Companies for the two years ended 31 December 2021 and the nine months ended 30 September 2022; (iii) the business development and future prospects of the Target Companies; and (iv) the factors as set out in the paragraph headed “**Reasons for and Benefits of the Disposal**” in this announcement below.

Considering that (i) the Target Companies are companies with asset-light business model that their value lies on the provision of strong sales and distribution network and value-added services to the customers; (ii) the adoption of P/E ratio as a valuation method in determining the consideration of the previous acquisitions of the Target Companies in April 2015 and August 2020, respectively; and (iii) the commercial negotiation between the Purchaser and the Vendor in adopting the P/E ratio to determine

the Consideration, the Company has adopted the P/E ratio as the multiple to estimate the value of the Target Companies. The calculation of the P/E ratio of the Consideration is illustrated below:

Consideration = C = RMB574,750,000

Profit after taxation of the Target Companies for the year ended 31 December 2021 = P
= RMB122,066,000

P/E Ratio = C/P = 574,750,000/122,066,000 = 4.71 times

Reference is also made to the acquisition of the Target Companies in April 2015 and August 2020, respectively. The consideration of RMB910,000,000 for the acquisition of 70% equity interests in the Target Companies in April 2015 represents a P/E ratio of approximately 8.3 times when taking into account the annual guarantee total combined net profit of the Target Companies for the year ended 31 December 2015 as specified in the 2015 Equity Transfer Agreement. Considering that the vendor guaranteed that each of the net profit in 2015, 2016 and 2017 shall not be less than the annual guarantee profit as specified in the 2015 Equity Transfer Agreement; and that the vendor agreed to pay a compensation on the shortfall of the annual guarantee profit by multiplying the shortfall by two up to the consideration received by the vendor, the Board considered that it would be more relevant to make reference to the P/E ratio taking into account the guarantee net profit when determining the consideration for the acquisition of 70% equity interests in the Target Companies in April 2015. Moreover, according to the 2015 Equity Transfer Agreement, should the combined net profit of the Target Companies for the three years ended 31 December 2017 be able to reach the annual guarantee profit as specified in the 2015 Equity Transfer Agreement, the Company shall acquire the remaining 30% equity interests in the Target Companies at a consideration with reference to the fair value of the Target Companies, representing 30% of a P/E ratio of 10 times to the guarantee total combined net profit of the Target Companies for the year ended 31 December 2017. As the combined net profits of the Target Companies for the three years ended 31 December 2017 reached the annual guarantee profit as specified in the 2015 Equity Transfer Agreement, the Company entered into the 2020 Equity Transfer Agreement for the acquisition of the remaining 30% equity interests in the Target Companies in August 2020. Therefore, the consideration of RMB675,000,000 for the acquisition of the remaining 30% equity interests in the Target Companies in August 2020 represents a P/E ratio of 10 times to the guarantee total combined net profit of the Target Companies for the year ended 31 December 2017 which fulfilled the commitment made by the Company in accordance with the 2015 Equity Transfer Agreement and after arm's length negotiation between the Company and the vendor. For further details in relation to the acquisitions of the Target Companies in April 2015 and August 2020, please refer to the Company's announcements dated 10 April 2015 and 10 August 2020, respectively. In view of the negative impact of COVID-19 pandemic on the business and financial performance of the Target Companies since 2020 and the uncertainty of the future

development and prospects as abovementioned, the Board considered that the P/E ratio for determining the Consideration would be lower than the P/E ratios for determining the consideration for both the acquisitions in April 2015 and August 2020.

In order to determine the fairness of the Consideration, the Board also made reference to the P/E ratios of two comparable companies in the market. The two comparable companies were identified based on the following selection criteria:

- the companies have similar operation model as the Target Companies in the sales and distribution of In Vitro Diagnostic products (“**IVD products**”), medical equipment and other related consumables and are one of the distributors of IVD products of Roche Diagnostic in the PRC;
- the revenue contribution mainly from the sales and distribution of IVD products, medical equipment and other related consumables (being around or over 50% of total revenue);
- types of customers;
- the companies are publicly listed;
- the companies mainly operate in the PRC;
- geographical focus of the revenue contribution of the comparable companies (namely, over 95% of total revenue derived from the PRC market); and
- sufficient data, including the P/E ratios, on the companies are available.

The comparable companies satisfying the aforementioned criteria are:

Company Name	P/E Ratio ^{Note 1}
Company A	9.6 times ^{Note 2}
Company B	10.43 times ^{Note 3}

Notes:

- 1: The P/E ratio of a company is defined as the company’s market capitalization as of the valuation date to its net profit in 2021.
- 2: The P/E ratio of Company A is calculated based on the market capitalization of Company A as of the valuation date (22 December 2022), i.e. about RMB5,749,000,000 divided by the net profit in 2021, i.e. RMB598,200,717.03.
- 3: The P/E ratio of Company B is calculated based on the market capitalization of Company B as of the valuation date (22 December 2022), i.e. about RMB15,470,000,000 divided by the net profit in 2021, i.e. RMB1,483,601,123.12.

The detailed basis of selection of the comparable companies are set out below:

Company Name	Basis of comparable selection
Company A	<ul style="list-style-type: none">— Principal nature of business activities: Company A is principally engaged in the sales and distribution of IVD products, medical equipment and other related consumables.— Principal business segment: As to the breakdown of revenue by products for the year ended 31 December 2021, Company A generated over 90% of its total revenue from the sales and distribution of IVD products, medical equipment and other related consumables.— Business model: The business model on the sales and distribution of IVD products, medical equipment and other related consumables of Company A is substantially the same as that of the Target Companies that the sales channel of IVD products, medical equipment and other related consumables is mainly through distribution.— Customers: The type of customers for the sales and distribution of IVD products, medical equipment and other related consumables of Company A is substantially the same as that of the Target Companies, i.e. hospitals, medical clinics and distributors. Similar to the Target Companies, Company A sell and distribute IVD products of Roche Diagnostics.— Principal geographical focus: For the year ended 31 December 2021, Company A generated over 95% of its revenue from the PRC.
Company B	<ul style="list-style-type: none">— Principal nature of business activities: One of the principal business activities of Company B that are in common with those of the Target Companies is the sales and distribution of IVD products, medical equipment and other related consumables.— Principal business segment: As to the breakdown of revenue by products for the year ended 31 December 2021, Company B generated about 50% of its total revenue from the sales and distribution of IVD products, medical equipment and other related consumables.

Company Name	Basis of comparable selection
	<ul style="list-style-type: none"> <li data-bbox="502 240 1449 470">— Business model: The business model on the sales and distribution of IVD products, medical equipment and other related consumables of Company B is substantially the same as that of the Target Companies that the sales channel of IVD products, medical equipment and other related consumables is mainly through distribution. <li data-bbox="502 512 1449 783">— Customers: The type of customers of the sales and distribution of IVD products, medical equipment and other related consumables of Company B is substantially the same as that of the Target Companies, i.e. hospitals, medical clinics and distributors. Similar to the Target Companies, Company B sell and distribute IVD products of Roche Diagnostics. <li data-bbox="502 825 1449 929">— Principal geographical focus: For the year ended 31 December 2021, Company B generated all of its revenue from the PRC.

Considering that these comparable companies fulfill the selection criteria with publicly available information for the year ended 31 December 2021 for the calculation of their respective P/E ratios, the Board is of the view that the selected companies represent a representative of comparables.

Despite the low number of comparables, it does not devalue their importance as a reference point in the basis of Consideration as they are the reliable reference for the value of similar companies in the market, and especially as the number of listed market participants in the same business scope, i.e. the sales and distribution of medical devices, IVD products and other related consumables as the Target Companies in the PRC and Hong Kong is itself limited. The comparables were used only as reference as indicated by how the actual P/E ratio is lower than all the comparables which is due to the Board taking into account that the Target Companies are not listed companies; and of a smaller size than the comparables; and that the comparables have a wider business scope than that of the Target Companies. First, the Target Companies are only the subsidiaries of the Group that its size is obviously much smaller than that of the two listed comparable companies. More importantly, despite the Target Companies and the two comparable companies shared similar characteristics in terms of their principal nature of business activities, business model, customers and principal geographical focus as abovementioned, the Board has considered the differences between the Target Companies and the two comparable companies in order to provide a more comprehensive analysis.

In particular, both Company A and Company B have a wider business scope than that of the Target Companies. In addition to the sales and distribution of IVD products, Company A is engaged in the provision of medical testing services and the manufacturing of its own brand of IVD products and other related consumables. As to the breakdown of revenue by the sales channel, Company A generated about 66% of its total revenue from distribution channel for the year ended 31 December 2021, whereas the Target Companies generated over 90% of its total revenue from the distribution of IVD products for the year ended 31 December 2021. Also, unlike the Target Companies that over 90% of its total revenue was generated from the sales and distribution of IVD products in Shanghai, Company A generated about 59% of its total revenue from Huadong District in the PRC. Moreover, Company A offers a wider variety of brands of IVD products, including both domestic and overseas brands of IVD products than that of the Target Companies while about 91% of IVD products that sold and distributed by the Target Companies are Roche Diagnostics.

On the other hand, Company B is not only a distributor of IVD products, but also a medical diagnostic solution provider which provides both IVD products and medical testing services. As one of the leading companies in the domestic third-party medical diagnostic industry in the PRC, Company B has laboratories nationwide, with a service network covering most of the provinces in the PRC. Company B generated around 50% of its total revenue from the provision of medical testing services for the year ended 31 December 2021, whereas the Target Companies generated over 90% of its total revenue from the sales and distribution of IVD products for the year ended 31 December 2021. Also, Company B's sales network covers most of the provinces in the PRC and that Company B generated about 54% of its total revenue from Huadong District in the PRC for the year ended 31 December 2021, whereas the geographical focus of the Target Companies is Shanghai only. Over 90% of the total revenue of the Target Companies was generated from the sales and distribution of IVD products in Shanghai for the year ended 31 December 2021. Moreover, Company B offers a wider range of IVD products to its customers than that of the Target Companies. In addition to Roche Diagnostics, Company B sells and distributes around 1,000 types of IVD products, including both domestic and overseas brands of IVD products.

Taking into account the differences between the Target Companies and the two comparable companies that the Target Companies are not listed companies; of a much smaller size and with less diversified business segments, the P/E ratios of the two comparable companies are only used as a starting reference point for the Board to determine the Consideration. Based on the above reasons, the Board considered that the P/E ratio of the Target Companies should be lower than that of the two comparable companies and that the comparison with the two comparable companies is fair and reasonable.

In addition to the two comparable companies as abovementioned, the Board made reference to the acquisition of 51% equity interests of Guangzhou Kehua Bio Engineering Co., Ltd. (“**Guangzhou Kehua**”) and 38.95% equity interests of Nanjing Yuanheng Biological Engineering Co., Ltd. (“**Nanjing Yuanheng**”) which are principally engaged in the sales and distribution of IVD products by Shanghai Kehua Bio-Engineering Co., Ltd. (stock code: 002022.SZ). Set out below is the brief information on the acquisition of these two companies which are principally engaged in the sales and distribution of IVD products:

Name of buyer ^{Note 1}	Name of target ^{Note 1}	Transaction date ^{Note 1}	Principal business of the target ^{Note 1}	Consideration ^{Note 1}	Price earnings ratio
Shanghai Kehua Bio-Engineering Co., Ltd. (stock code: 002022.SZ)	51% equity interests of Guangzhou Kehua	January 2018	Sales and distribution of IVD products	RMB21,420,000	6.0 ^{Note 2}
Shanghai Kehua Bio-Engineering Co., Ltd. (stock code: 002022.SZ)	38.95% equity interests of Nanjing Yuanheng	January 2018	Sales and distribution of IVD products	RMB48,000,000	7.1 ^{Note 3}

Note 1: Information about the acquisitions above were obtained from the relevant announcement of the buyer.

Note 2: The P/E ratio of Guangzhou Kehua is calculated based on the approximate acquisition price of 100% equity interests of Guangzhou Kehua divided by guarantee net profit in 2018.

Note 3: The P/E ratio of Nanjing Yuanheng is calculated based on the approximate acquisition price of 100% equity interests of Nanjing Yuanheng divided by the guarantee net profit in 2018.

Despite that the acquisition took place in January 2018 prior to the outbreak of COVID-19 pandemic, the Directors considered that given Guangzhou Kehua and Nanjing Yuanheng are principally engaged in the sales and distribution of IVD products which has the same business segment as the Target Companies, the acquisition price of Guangzhou Kehua and Nanjing Yuanheng would be the comparable transactions to be considered when determining the pricing of the Target Companies. The P/E ratio for the acquisitions of Guangzhou Kehua and Nanjing Yuanheng were approximately 6.0 and 7.1 times, respectively which were slightly higher than the P/E ratio for the Disposal. However, taking into account the adverse impact of the outbreak of COVID-19 pandemic on the business and financial performance of the Target Companies since 2020 and the uncertainty of the future development and prospects as mentioned below, the Board considered that the P/E ratio for determining the Consideration would be lower than the P/E ratios for the acquisitions of Guangzhou Kehua and Nanjing Yuanheng and that the Consideration is fair and reasonable.

In addition, the Board considered the business development and future prospects of the Target Companies in determining the Consideration. Before the outbreak of COVID-19, many patients from other provinces and cities came to Shanghai for medical treatment in hospitals and medical clinics. However, since the COVID-19 pandemic in 2020, under regional lock-down and continuous quarantine measures in the PRC, most hospital resources have been reserved to combat COVID-19 and hospitals have been occasionally shut down, which caused a plunge in demand of the medical devices, IVD products and related consumables. In particular, the large-scale lock down in Shanghai in the first half of 2022 seriously hindered the regular services in hospitals and medical clinics which in turn adversely affected the business operations of the Target Companies. Also, in October 2016, the State Council issued the “the Outlines on Carrying Out Health China Operation 2030” which set out the outlines of promoting the construction of a healthy China (the “**Outlines**”). One of the objectives of the Outlines is to establish a medical quality management and control system and improve the quality of medical services. In June 2021, the General Office of the State Council issued the “Opinions on Promoting the High-Quality Development of Public Hospitals” (the “**Opinions**”), pursuant to which the PRC government emphasized on the development of high-quality public hospitals by the construction of national and regional medical centers. In particular, the PRC government urged the reduction of cross-province medical care by building more high-level provincial public hospitals. In implementing the Opinions, the PRC government introduced a pilot construction of regional medical centers by selecting a number of high-quality public hospitals in Beijing, Shanghai and Guangzhou to set up their branches and sub-medical centers in other provinces. Going forward, the PRC government is strive to strengthen the construction of the system of public hospital services and develop high-quality public hospitals so as to construct a healthy China. Therefore, the Board is of the view that even if regular services in hospitals and medical clinics have started to resume services in the PRC, including Shanghai during the second half of 2022, leading to an increase in the demand of IVD products and medical devices, the habits of patients in visiting hospitals and medical clinics have changed significantly that patients from other provinces and cities may tend to seek medical services locally due to the Opinions. Moreover, since the outbreak of COVID-19 pandemic, the PRC government has been actively encouraging priority procurement of domestic medical equipment and IVD products and promoting substitution of imported medical equipment and IVD products by domestic ones in order to reduce medical costs. Under the continuous promotion of such policy, many provinces and cities in the PRC adjusted their procurement policy to prioritize the procurement of domestic medical equipment and IVD products which accelerated the substitution of imported medical equipment and IVD products by the domestic ones, reducing the demand of imported medical equipment and IVD products. As such, taking into account the promotion of domestic product substitution, the Board expects that there may pose an uncertainty on the future development and prospects of the Target Companies given that the Target Companies primarily sell and distribute IVD products of Roche Diagnostics, which is a brand from Switzerland in Shanghai. In addition, due to the poor market sentiment in the capital market in the PRC, there were limited or even no acquisitions or transactions of companies with similar business activities over the past two years since the outbreak of

COVID-19 pandemic in 2020. The Board has been encountered difficulty in looking for potential purchaser to acquire the Target Companies. However, the Purchaser, as the founder of the Target Companies, expressed his interest in acquiring the Target Companies with fair and reasonable consideration. The Board considered this as a good opportunity for the Group to realize its investment in the Target Companies and repay its outstanding liabilities.

Taking into account the abovementioned factors, the Board is of the view that the Consideration is fair and reasonable and in the interests of the Company and its shareholders.

Settlement Terms

The Actual Payment is to be settled by the Purchaser in cash within ten Business Days from the effective date of the Equity Transfer Agreement or within 30 days from the written notification of the payment of the Consideration from the Vendor to the Purchaser (whichever is later) and on the date of the submission of the registration materials for the transfer of the Target Shares to the relevant government department.

Conditions precedent

The transfer of the Target Shares under the Equity Transfer Agreement is subject to the fulfilment (or waiver, if applicable) of the following conditions precedent:

- (i) the Actual Payment being settled in full by the Purchaser;
- (ii) there has been no change in the principal business of the Target Companies;
- (iii) there has been no material adverse change in the asset structure and status of the Target Companies; there is no event that may have a material adverse impact on the financial position, prospects, assets or obligations of the Target Companies; and there is no circumstance which causes the Target Companies to cease the operation; and the Target Shares are free from mortgage, pledge, sealing, freezing or any other encumbrance or third party claim;
- (iv) the representations and warranties made by the Vendor and the Purchaser being performed and completed in all material aspects;
- (v) the passing of the necessary resolution(s) by the shareholders of the Target Companies approving the Equity Transfer Agreement and the transactions contemplated thereunder;
- (vi) the Shareholders' written approval from the Shareholders holding more than 50% of the issued share capital of the Company approving the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained (if necessary); and

(vii) all necessary consents and approvals to be obtained by the Company having been obtained.

Completion

Completion will take place on the date upon the completion and satisfaction of the following:

- (i) the settlement of the Actual Payment by the Purchaser;
- (ii) the registration and filing procedures of the transfer of the Target Shares at the relevant government department;
- (iii) the amendment of the register of shareholders and articles of association of the Target Companies; and
- (iv) the fulfillment (or waiver) of the conditions mentioned above.

Upon Completion, the Company will cease to hold any equity interests in the Target Companies and the financial information of the Target Companies will no longer be consolidated into the Group's consolidated financial statements.

INFORMATION OF THE TARGET COMPANIES

The Target Companies are principally engaged in the sales and distribution of IVD products, medical equipment and other related consumables in Shanghai. The Target Companies generated over 90% of their total revenue from the sales and distribution of IVD products for the year ended 31 December 2021. Typical example of the brand of IVD products the Target Companies sell and distribute is Roche Diagnostics which is one of the popular brands in pharmaceuticals and diagnostics from Switzerland. On the other hand, the Remaining Group continues to distribute IVD products with its existing distribution rights in locations other than Shanghai, including Beijing, Guangzhou, Shenzhen, Fujian, Guangdong, Guangxi, Hainan, Hunan, Jiangsu, Hebei, Anhui and Inner Mongolia. With separate distribution rights of IVD products, the Target Companies and the Remaining Group have their own independent business operation on the sales and distribution of IVD products.

Shanghai Emphasis Investment

Shanghai Emphasis Investment is a company established in the PRC with limited liability and is principally engaged in sale of medical equipment and reagents. As at the date of this announcement, Shanghai Emphasis Investment is beneficially held as to 94.2%, 4.4% and 1.4% by Yestar Medical, the Purchaser and Mr. Li Changgui, respectively. Yestar Medical is a direct wholly-owned subsidiary of Yestar HK and hence an indirect wholly-owned subsidiary of the Company as at the date of this announcement. Mr. Li Changgui is an Independent Third Party.

Upon Completion, the Company will cease to hold any equity interests in Shanghai Emphasis Investment. Accordingly, Shanghai Emphasis Investment will cease to be a subsidiary of the Company and will no longer be consolidated into the financial statements of the Group.

Shanghai Jianchu Medical

Shanghai Jianchu Medical is a company established in the PRC with limited liability and is principally engaged in sale of medical equipment and reagents. As at the date of this announcement, Shanghai Jianchu Medical is beneficially held as to 94.2% and 5.8% by Yestar Medical and the Purchaser, respectively. Yestar Medical is a direct wholly-owned subsidiary of Yestar HK and hence an indirect wholly-owned subsidiary of the Company as at the date of this announcement.

Upon Completion, the Company will cease to hold any equity interests in Shanghai Jianchu Medical. Accordingly, Shanghai Jianchu Medical will cease to be a subsidiary of the Company and will no longer be consolidated into the financial statements of the Group.

Shanghai Chaolian Trading

Shanghai Chaolian Trading is a company established in the PRC with limited liability and is principally engaged in sale of medical equipment and reagents. As at the date of this announcement, Shanghai Chaolian Trading is beneficially held as to 94.2% and 5.8% by Yestar Medical and the Purchaser, respectively. Yestar Medical is a direct wholly-owned subsidiary of Yestar HK and hence an indirect wholly-owned subsidiary of the Company as at the date of this announcement.

Upon Completion, the Company will cease to hold any equity interests in Shanghai Chaolian Trading. Accordingly, Shanghai Chaolian Trading will cease to be a subsidiary of the Company and will no longer be consolidated into the financial statements of the Group.

Shanghai Haole Industrial

Shanghai Haole Industrial is a company established in the PRC with limited liability and is principally engaged in sale of medical equipment and reagents. As at the date of this announcement, Shanghai Haole Industrial is beneficially held as to 94.2% and 5.8% by Yestar Medical and the Purchaser, respectively. Yestar Medical is a direct wholly-owned subsidiary of Yestar HK and hence an indirect wholly-owned subsidiary of the Company as at the date of this announcement.

Upon Completion, the Company will cease to hold any equity interests in Shanghai Haole Industrial. Accordingly, Shanghai Haole Industrial will cease to be a subsidiary of the Company and will no longer be consolidated into the financial statements of the Group.

Shanghai Dingpei Industrial

Shanghai Dingpei Industrial is a company established in the PRC with limited liability and is principally engaged in sale of medical equipment and reagents. As at the date of this announcement, Shanghai Dingpei Industrial is beneficially held as to 94.2% and 5.8% by Yestar Medical and the Purchaser, respectively. Yestar Medical is a direct wholly-owned subsidiary of Yestar HK and hence an indirect wholly-owned subsidiary of the Company as at the date of this announcement.

Upon Completion, the Company will cease to hold any equity interests in Shanghai Dingpei Industrial. Accordingly, Shanghai Dingpei Industrial will cease to be a subsidiary of the Company and will no longer be consolidated into the financial statements of the Group.

The Combined Financial Information of the Target Companies

The following is a summary of the unaudited combined financial information of the Target Companies for the two years ended 31 December 2021 and the nine months ended 30 September 2022:

	For the year ended 31 December		For the nine months ended
	2020	2021	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	1,322,924	1,623,534	1,074,063
Profit before taxation	144,666	165,011	36,563
Profit after taxation	109,656	122,066	28,385

As at 30 September 2022, the unaudited combined net asset value of the Target Companies was approximately RMB608.0 million.

The unaudited combined financial information extracted from the unaudited combined financial statements of the Target Companies for the two years ended 31 December 2021 and the nine months ended 30 September 2022 which are prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board. The combined financial information in relation to the Target Companies which will be reviewed by the independent auditors of the Company will be set out in the circular to be despatched to the Shareholders.

To supplement the combined financial information of the Target Companies, which are presented in accordance with IFRS, the Company also use the adjusted net profit as an additional financial measure. The Company presents such non-IFRS measure can be used for understanding and assessing the underlying business by eliminating the impact of items relating to the Target Companies, mainly including impairment and amortization of goodwill and other intangible assets (customer relationship and distribution rights) arising from the acquisition of the Target Companies. The following table reconciles the adjusted net profit for the two years ended 31 December 2021 and the nine months ended 30 September 2022 presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is the profit after taxation for the corresponding year/period:

	For the year ended		For the nine
	31 December		months ended
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Profit after taxation	109,656	122,066	28,385
Add:			
Amortization of other intangible assets provided during the year/period ⁽¹⁾	(54,573)	(54,573)	(40,930)
Impairment of Goodwill ⁽¹⁾	(76,425)	—	—
Tax impact ⁽¹⁾	13,643	13,643	10,233
Non-IFRS measure adjusted profit for the year/period	(7,699)	81,136	(2,313)

Note:

- (1) The adjusted items shown in the table above represent the gain or loss in the Group's consolidated statement of income due to goodwill, other intangible assets (customer relationship and distribution rights) and related deferred income tax liabilities relating to the Target Companies arising from the acquisition of the Target Companies.

INFORMATION ON THE PURCHASER

The Purchaser was appointed as an executive Director of the Company on 18 June 2021 and resigned on 31 December 2021. Therefore, given that the Purchaser was a Director in the last 12 months, the Purchaser is a connected person of the Company pursuant to the Listing Rules. The Purchaser was the founder of the Target Companies. As at the date of this announcement, the Purchaser holds 164,600,600 Shares in the Company, representing approximately 7.1% equity interests in the Company.

INFORMATION ON THE GROUP

The Group is principally engaged in (i) the manufacturing and sale of colour photographic paper, industrial NDT x-ray films and PWB films, and trading of imaging equipment; and (ii) manufacturing and sale of medical dry films, medical wet films and dental films, distribution of medical equipment and diagnostic reagents throughout various major provinces and cities in the PRC. The Company is an investment holding company.

The Vendor is a company established in the PRC with limited liability and is principally engaged in the manufacturing of dental films and manufacturing and sale of medical dry films and medical wet films. The Vendor is a direct wholly-owned subsidiary of Yestar HK and an indirect wholly-owned subsidiary of the Company.

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Upon Completion, the Company will cease to hold any equity interests in the Target Companies. Accordingly, the Target Companies will cease to be the subsidiaries of the Company and will no longer be consolidated into the financial statements of the Group.

The Group expects to record an unaudited net loss from the Disposal after deducting the expenses directly attributable thereto and without taking into account the income tax impact, will amount to approximately RMB553.9 million. The net loss arising from the Disposal represents the Consideration paid by the Purchaser of approximately RMB574.8 million, deducting (i) the unaudited combined net asset value of the Target Companies of approximately RMB608.0 million (including the impact of the Purchaser forfeiting the dividend payable to him of RMB120.5 million); (ii) an aggregate amount of goodwill and other intangible assets arising from the acquisition of the Target Companies of approximately RMB638.6 million; and (iii) the estimated transaction costs of approximately RMB2.5 million, offset by (iv) dividend payable to the Purchaser of approximately RMB120.5 million, payment of which would no longer be required upon the Disposal. The dividend payable to the Purchaser, as a non-controlling shareholder of the Target Companies, represents the accumulated retained earnings to be payable to the Purchaser incurred since 2015 to 30 September 2022. The above figures are for illustrative purpose only. The actual loss in connection with the Disposal will be determined based on the net proceeds received, the financial position of the Disposal Group at Completion.

Except for the transaction costs as illustrated above, the other expenses and costs items included in the calculation of net loss from the Disposal are non-cash in nature. In addition, all of these expenses and costs will have no continuing impact on the Remaining Group's business operations. The Directors are of the view that the Remaining Group will have a healthier financial position and the Disposal will bring continuous benefits to the Shareholders despite the loss to be recorded by the Group on the Disposal.

The net proceeds of approximately RMB430.0 million are intended to be used for the settlement of outstanding liabilities of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group has encountered difficulty and challenging market conditions since outbreak of the COVID-19 pandemic in 2020. Since the first half of 2020, most hospital resources have been reserved to combat COVID-19 and hospitals have been occasionally shut down due to regional lockdown and quarantine measures in the PRC, which caused a plunge in demand of the IVD equipment installment reagent and related consumables. As a result, the Group recorded decreased revenue and profit subsequent to 2020 compared to those before the pandemic outbreak. In particular, the resurgence of COVID-19 disrupted the relative stability of the PRC in 2022 and Shanghai, the financial center of the PRC, was hit the hardest. The city of Shanghai was completely locked down for nearly three months — including the entire April and May 2022.

As the Target Companies mainly operated in Shanghai and is clearly delineated from the Remaining Group by geographical area, the profit contribution from the Target Companies has recorded a rapid drop in 2022 led by the complete-lockdown in Shanghai. The unaudited combined financial information of the Target Companies is set forth in the paragraph headed “Information of the Target Companies — The combined financial information of the Target Companies” in this announcement. The Board is of the view that given (i) the general negative impact and uncertainty brought by COVID-19 to the Group’s business performance since 2020, especially in the city of Shanghai; (ii) the interest of the Purchaser, as the founder, in acquisition of the Target Companies; and (iii) the financial status of the Company, the Disposal provides a good opportunity for the Group to realize its investment in the Target Companies and repay the outstanding liabilities due by the Company.

In view of the aforesaid challenges faced by the Group brought by the COVID-19, the Company has been exploring ways to raise funds to reduce its indebtedness, improve the liquidity and the overall financial position of the Remaining Group. As disclosed in the Company’s announcement dated 8 April 2022, with an aim to strengthen the Company’s capital base and help reduce the Company’s debt ratio and improve its financial position, the Company and the potential investor entered into the memorandum of understanding, pursuant to which the Company intends to allot and issue, and the potential investor intends to subscribe for new shares to be allotted and issued by the Company under the possible subscription. However, the potential subscription did not proceed due to the commercial negotiation between the Company and the potential investor. In view of current unfavourable market conditions, the Company faced difficulty in raising funds in the capital market.

Nevertheless, the Company has successfully carried out a series of offshore debt restructuring actions with an aim to pave way for sustainable development, including but not limited to issuance of US\$197,864,523 new senior notes (the “**New Notes**”) due 2026 at a coupon rate of 9.5%. Details of the terms of the aforesaid restructuring actions and the New Notes are set forth in the Company’s announcements dated 8 November, 3 December, 12 December, 14 December, 29 December and 31 December 2021 respectively.

The outstanding liabilities of the Group, including the New Notes, are expected to incur significant financial costs taking into account (i) the terms and conditions regarding interest rate and repayment of the Group's outstanding liabilities; and (ii) the depreciation of RMB. Based on the current financial position and unfavorable market conditions, the Group has limited opportunities of obtaining new financing or refinancing from the banks. As such, the Board also considers that the Consideration and the Disposal will enable the Company to reduce its indebtedness, improve the liquidity and the overall financial position of the Remaining Group.

In addition, the net proceeds of the Disposal of approximately RMB430.0 million will enhance the Remaining Group's financial position by reducing its indebtedness and lowering the gearing ratio. The net proceeds from the Disposal will be used to settle the outstanding liabilities of the Remaining Group, and reduce its indebtedness improve the liquidity and the overall financial position of the Remaining Group, which are critical to stay competitive locally and internationally and generate long-term growth to shareholders. As abovementioned, the Remaining Group recorded significant finance cost from senior notes in 2021 and such finance cost is expected to further increase in 2022 given the depreciation of RMB. Therefore, the net proceeds from the Disposal will serve as a source of funding for settlement of part of the outstanding liabilities, so that the Remaining Group is able to deploy more resources in the business development after the finance cost is lowered.

The terms of the Equity Transfer Agreement (including the Consideration) were arrived at arm's length commercial negotiation amongst the Company and the Purchaser. In view of the above, the Directors are of the opinion that the terms and conditions of the Equity Transfer Agreement (including the Consideration) are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As the highest applicable percentage ratio (as defined in the Listing Rules) exceeds 75%, the Disposal and the transactions contemplated thereunder constitute a very substantial disposal on the part of the Company under Chapter 14 of the Listing Rules and are subject to the announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Purchaser was appointed as an executive Director of the Company on 18 June 2021 and resigned on 31 December 2021. Therefore, given that the Purchaser was a Director in the last 12 months, the Purchaser is a connected person of the Company pursuant to the Listing Rules. The Disposal therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has any material interest in the Equity Transfer Agreement and the Disposal and was required to abstain from voting on the Board resolutions approving the Equity Transfer Agreement and the Disposal.

GENERAL

An EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder. The Independent Board Committee comprising all independent non-executive Directors, namely Dr. Hu Yiming, Mr. Zeng Jinsong and Mr. Sutikno Liky, has been established to make recommendation to the Independent Shareholders regarding the Disposal. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. As at the date of this announcement, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, except Mr. Li Bin, no other Shareholders or any of their associates have any material interests in the Equity Transfer Agreement and the transactions contemplated thereunder, and the Purchaser will be required to abstain from voting on the resolution(s) to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

A circular containing, among other things, (i) further information of the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) financial information of the Disposal Group and the Remaining Group and other information as required under the Listing Rules; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 10 February 2023.

The transactions contemplated under the Equity Transfer Agreement are conditional upon the satisfaction of the conditions as set out in the section headed “Equity Transfer Agreement — Conditions precedent” in this announcement, and thus the transactions contemplated under the Equity Transfer Agreement may or may not proceed.

The presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of the non-IFRS measure stated in this announcement has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Group’s operating results or financial condition as reported under the IFRS.

Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITION

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“2015 Equity Transfer Agreement” the agreement dated 9 April 2015 entered into among the Yestar Medical, as the purchaser, the then shareholders of the Target Companies and the Target Companies in relation to the acquisition of 70% equity interests in the Target Companies

for further details in relation to the 2015 Equity Transfer Agreement, please refer to the Company’s announcement dated 10 April 2015

“2020 Equity Transfer Agreement” the equity transfer agreement dated 7 August 2020 entered into between Yestar Medical, as the purchaser, and the Purchaser and Mr. Li Changgui, as the vendors, for the acquisition of 30% equity interests in each of the Target Companies for a consideration of RMB675,000,000

pursuant to the 2015 Equity Transfer Agreement, which stated that should the combined net profit of the Target Companies for the three years ended 31 December 2017 be able to reach the annual guarantee profit as specified in the 2015 Equity Transfer Agreement, the Purchaser shall acquire the remaining 30% equity interests in each of the Target Companies at a consideration with reference to the fair value of the Target Companies, representing 30% of a price earnings ratio of 10 times to the total combined net profit of the Target Companies for the year ended 31 December 2017 audited by the auditor appointed by Yestar Medical up to a maximum consideration of RMB675,000,000

for further details in relation to the 2020 Equity Transfer Agreement, please refer to the Company’s announcement dated 10 August 2020

“associates” has the meaning ascribed to it under the Listing Rules

“Board” the board of Directors

“Business Day” a day (excluding Saturday, Sunday and public holidays) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours

“Company”	Yestar Healthcare Holdings Company Limited (巨星醫療控股有限公司), a company incorporated in the Cayman Islands with limited liability and whose shares are listed and traded on the Main Board of the Stock Exchange (stock code: 2393)
“Completion”	completion of the Disposal in accordance with the terms of the Equity Transfer Agreement
“Consideration”	a total consideration of RMB574,750,000 payable by the Purchaser to the Vendor in respect of the Disposal pursuant to the Equity Transfer Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Target Shares as contemplated under the Equity Transfer Agreement
“EGM”	The extraordinary general meeting of the Company to be held and convened for the Shareholders to approve the Equity Transfer Agreement and the transactions contemplated thereunder
“Equity Transfer Agreement”	the equity transfer agreement entered into between the Vendor and the Purchaser on 30 December 2022 in respect of the Disposal
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board which comprises all the independent non-executive Directors, namely Dr. Hu Yiming, Mr. Zeng Jinsong and Mr. Sutikno Liky to advise the Independent Shareholders in respect of the Disposal
“Independent Shareholders”	the Shareholders other than Shareholders who have material interest in the Disposal
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China
“Purchaser”	Mr. Li Bin (李斌)
“Remaining Group”	the Group excluding the Target Companies upon Completion
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Chaolian Trading”	Shanghai Chaolian Trading Co., Ltd. (上海超聯商貿有限公司), a company incorporated under the laws of the PRC
“Shanghai Dingpei Industrial”	Shanghai Dingpei Industrial Co., Ltd. (上海定佩實業有限公司), a company incorporated under the laws of the PRC
“Shanghai Emphasis Investment”	Shanghai Emphasis Investment Management Consulting Co., Ltd. (上海安百達投資管理顧問有限公司), a company incorporated under the laws of the PRC
“Shanghai Haole Industrial”	Shanghai Haole Industrial Co., Ltd. (上海顯樂實業有限公司), a company incorporated under the laws of the PRC
“Shanghai Jianchu Medical”	Shanghai Jianchu Medical Instrument Co., Ltd. (上海建儲醫療器械有限公司), a company incorporated under the laws of the PRC
“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	ordinary share(s) of the Company having a par value of HK\$0.025 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	Shanghai Emphasis Investment, Shanghai Jianchu Medical, Shanghai Chaolian Trading, Shanghai Haole Industrial and Shanghai Dingpei Industrial
“Target Shares”	the 94.2% equity interests in each of the Target Companies
“US\$”	the lawful currency for the time being of the United States of America
“Vendor”	Yestar Medical
“Yestar HK”	Yestar International (HK) Company Limited (巨星國際(香港)集團有限公司), a company established in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company

“Yestar Medical” Yestar (Guangxi) Medical System Co., Ltd. (廣西巨星醫療器械有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company

“%” per cent

By order of the Board
Yestar Healthcare Holdings Company Limited
Liao Changxiang
CEO and executive Director

30 December 2022

As at the date of this announcement, the executive Directors are Ms. Wang Hong, Ms. Liao Changxiang and Mr. Liang Junxiong; the non-executive Director is Mr. Hartono James; and the independent non-executive Directors are Dr. Hu Yiming, Mr. Zeng Jinsong and Mr. Sutikno Liky.