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EPS Creative Health Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)
(HKEX Stock code: 3860)

SUPPLEMENTAL ANNOUNCEMENT ON THE DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 65% EQUITY INTEREST IN THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcement (the "**Announcement**") of the Company dated 28 March 2023 in relation to the acquisition of the Sale Interests, which represent 65% of the issued share capital in the Target Company. Unless otherwise stated, capitalised terms used in this announcement shall bear the same meanings as defined in the Announcement.

The Board wishes to provide the following supplemental information in relation to the Acquisition.

PRINCIPAL TERMS OF THE AGREEMENT

Basis of the Consideration

As mentioned in the Announcement, the initial Consideration of HK$56.16 million was determined after arm's length negotiations between the parties to the Agreement with reference to (a) the average of the Target Profit for the three financial years commencing from 1 April 2023 to 31 March 2026 of HK$18,000,000 per year; (b) the price-earning ratio ("**P/E Ratio**") of 4.8 times applicable for such three-year Period for the Target Profit; and (c) 65% equity interest of the Target Company to be acquired by the Group. As such, the actual Consideration payable by the Group is dependent on the actual EBITDA of the Target Group during the Period and not based on its historical profit.

In arriving at the Target Profit of HK$54 million for the Period in aggregate (or an average of HK$18 million per year), the Company has taken into consideration: (i) popularity of the brands within the Target Group's product portfolio; (ii) the established sale channels of the Target Group of approximately 60,000 shops in the PRC; (iii) the potential of further supply of other well-known health food from the Japanese supplier to the Target Company; and (iv) the expected growth of sales with expansion of sale channels as reflected in the budget provided by the Target Group. According to its latest unaudited financial information, the EBITDA of Taiga Shenzhen for the six months ended 28 February 2023 is approximately HK$6.2 million (or HK$12.4 million for the full year ending 31 August 2023 if annualized), which is in line with the budget. Based on the actual figures and the above factors, both the Vendor and the Board considered that the Target Profit for the Period is achievable.

In any event, given the short track record of the Target Group, the Consideration has built in an adjustment mechanism whereby it would be adjusted either downward or upward according to the actual performance of the Target Group for the Period. In the event that the Target Profit is not achievable, less Consideration will be paid by the Company. Such adjustment mechanism is considered fair and reasonable by both the Vendor and the Board.

P/E Ratio

The Board has taken into consideration the following in adopting the P/E Ratio of 4.8 times:

(i) P/E Ratio is a common valuation method for the assessment of companies' value with profitable businesses, especially when the subject companies do not rely on a significant amount of fixed assets and equipment during its operation;

(ii) the Board has identified 15 of listed companies of similar size and comparable principal business (the "**Business Comparables**") as the Target Company in Hong Kong, i.e. having not less than 50% of total revenue generated from the distribution and sales of healthcare products such as Chuanbei loguat paste, medicated oil and functional food products (which are comparable to the business of the Target Group whose revenue has been derived substantially from the sale of health food (i.e. Ryukakusan)) and with market capitalization of not more than HK$500 million, and noted that the P/E Ratios of the Business Comparables (excluding eight of them which were loss making) ranged from approximately 1.19 times (i.e. Jilin Province Huinan Changlong Bio-pharmacy Company Limited, stock code: 8049) to approximately 28.44 times (i.e. China Regenerative Medicine International Limited, stock code: 8158) with an average of approximately 11.50 times and a median of 10.04 times (i.e. Pak Fah Yeow International Limited, stock code: 239); and

(iii) the P/E Ratio of 4.8 times is also a result of commercial negotiation between the parties taking into consideration of the P/E Ratios of the Business Comparables and of the fact that the Target Group is a private group of companies with relatively short track record. The facts that the P/E Ratio of 4.8 times is below the average of the range and the median of the P/E Ratios of the

Business Comparables and that such P/E Ratio of 4.8 times would remain unchanged for the whole 3-year Period to be applied for determining the actual consideration payable by the Group are considered favourable to the Company.

In light of the above, the Board considered that the Consideration is fair and reasonable and in the interest to the Company and its shareholders as a whole.

Capitalisation of the Outstanding Sum

It is provided in the terms of the Agreement that the Purchaser shall allot and issue the Consideration Shares to set off against the Outstanding Sum on a one-off basis, save and except where the issue of the Consideration Shares would result in an insufficient public float of the Company, then fewer Consideration Shares would be issued and the remaining outstanding amount of the Promissory Note may be settled by the Company by the issue of Consideration Shares in tranches from time to time before its maturity so long as the minimum public float requirement is maintained.

Issue Price

The adjustment formula for the Issue Price is agreed after arm's length negotiation between the parties after taking into account the basis for determining the Consideration (which would be finally fixed after the three years when the Actual Profit of the Target Group will be available). The benchmark share price of HK$3, or in other words, the arrangement to only adjust the Issue Price when the Company's average closing price is HK$3 or above for the first quarter of each of 2024 to 2026, is agreed to be a measure to reflect and adjust the possible increase in the trading price of the Shares throughout the three-year period for the Target Group to achieve the Target Profit. With the closing price of HK$0.95 per Share as quoted on the Stock Exchange on the Last Trading Day, the Board considered it reasonable to assume that the Share price will go up upon completion of the Acquisition, particularly with the potential profits to be generated and contributed by the Target Group. To allow only upward adjustment but not downward adjustment of the Issue Price further minimises the dilution effect on the existing Shareholders as fewer Consideration Shares would be allotted and issued with a higher Issue Price. The closing price of one Share quoted each year is multiplied by 2/3 so as to ensure that there is no adjustment if the share price of the Company remains below HK$3 in each year.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

As mentioned in the Announcement, the Target Group enjoys an extensive distribution network and export its goods via established channels. As such, the Target Company would be able to complement the existing business operations of the Group in the healthcare segment by trading and distributing the healthcare products of the Group to generate income for the Group and create a positive synergy effect. Among the products traded by the Target Group, Ryukakusan herbal candy, which contributes a substantial part of the Target Group's distribution revenue, is a product of a Japanese pharmaceutical company and serving as a throat health food.

The Acquisition is also in line with the Group's broader business expansion strategy. As mentioned in the annual report of the Company for the year ended 31 March 2022, the Group intends to broaden the scope of its services from pharmaceuticals to medical devices, diagnostic drugs, and health foods, and to expand its business which is evident from the Group's recent acquisitions in September and December 2022. The Group has been actively looking for opportunities to diversify its business beyond the pharmaceutical industry and the Acquisition represents a continuation of the Group's expansion and is consistent with the Group's strategy to tap into the pharmaceutical and healthcare industry. The Board therefore considered that the Acquisition is in the interests of the Company and the Shareholders as a whole.

By order of the Board
EPS Creative Health Technology Group Limited
Miyano Tsumoru
Executive Director

Hong Kong, 27 April 2023

As at the date of this announcement, the executive Directors are Mr. Okoso Satoshi, Mr. Miyano Tsumoru, Mr. Gao Feng, Mr. Haribayashi Keikyo and Mr. Maezaki Masahiro; the non-executive Director is Mr. Xia Xiangming; and the independent non-executive Directors are Mr. Taguchi Junichi, Mr. Choi Koon Ming and Mr. Chan Cheuk Ho.