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Sanai Health Industry Group Company Limited

三愛健康產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1889)

DISCLOSEABLE TRANSACTION ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY

THE AGREEMENT

The Board is pleased to announce that on 1 March 2024 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor. Pursuant to the Agreement, the Vendor has agreed to sell, and the Purchaser has agreed to purchase, the Equity Interest for a consideration of RMB33.15 million, which shall be settled by cash.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio as calculated under Rule 14.06 of the Listing Rules in respect of the Acquisition is more than 5% but is less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules. The Acquisition is subject to the reporting and announcement requirements but is exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 1 March 2024 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor. Pursuant to the Agreement, the Vendor has agreed to sell, and the Purchaser has agreed to purchase, the Equity Interest for a consideration of RMB33.15 million, which shall be settled by cash.

The principal terms of the Agreement are summarized below.

THE AGREEMENT

Date: 1 March 2024 (after trading hours of the Stock Exchange)

Parties:

(1) Purchaser: Beijing Bafuluo Technology Co., Ltd.* 北京巴夫羅科技有限公司, a wholly-owned subsidiary of the Company;

(2) Vendor: Mr. Xie Haijing (謝海京) ; and

(3) The Target Company.

Subject of the Acquisition

Pursuant to the Agreement, the Vendor has agreed to sell, and the Purchaser has agreed to purchase, the Equity Interest, representing 51% of the equity interest in the Target Company.

Consideration

The Consideration payable for the sale and purchase of the Equity Interest shall be RMB33.15 million, which shall be settled by cash in the following manner:

(1) a sum of RMB5.00 million (the "**First Tranche of Consideration**") shall be payable by the Purchaser to the Vendor within three (3) Business Days after signing of the Agreement;

(2) a sum of RMB20.00 million shall be payable by the Purchaser to the Vendor within three (3) Business Days after completion of registration of the Equity Transfer; and

(3) a sum of RMB8.15 million shall be payable by the Purchaser to the Vendor within six (6) months after payment of the First Tranche of Consideration.

The Company intends to pay the Consideration by the internal resources of the Group and the daily operation of the Group will not be affected.

Basis of the Consideration

The Consideration for the Acquisition was determined based on arm's length negotiations between the Purchaser and the Vendor with reference to a valuation (the "**Valuation**") made by an independent valuer (the "**Valuer**") in respect of the Equity Interest with aggregated market value of approximately RMB35.00 million as at 30 September 2023 (the "**Valuation Date**") under market approach, details of which are set out below.

Valuation methodology

In arriving at the assessed value, the Valuer has considered three generally accepted valuation approaches, namely market approach, cost approach and income approach.

Given the characteristics of the Target Company, there are substantial limitations for the income approach and the cost approach for valuing the underlying assets. Firstly, income approach result would be more dependent on long term financial forecast internally prepared by the management, which is unobservable input and requires subjective assumptions. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, the Valuer has adopted the market approach for the Valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. The benefits of using this approach include simplicity, clarity, speed and the need for few assumptions. It also introduces objectivity in application as publicly available inputs are used.

In the valuation exercise, the market value of the Equity Interest was developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of the Target Company. The Valuer has considered price-to-book ("**P/B**"), price-to-sales ("**P/S**"), enterprise value-to-sales ("**EV/S**"), enterprise value-to-EBIT ("**EV/EBIT**") and price-to-earnings ("**P/E**") multiples.

According to the consolidated financial statements of the Target Company, the EBIT and earnings of the Target Company for the last twelve months as at the Valuation Date are negative. Accordingly EV/EBIT and P/E multiple cannot be applied in the Valuation.

The P/S and P/B multiple are quicker to calculate, using only a company's market capitalization as the numerator. However, when comparing the value of a company in the different capital structures, the EV/S multiple is preferred which is because the enterprise value takes into account the debt and the equity structure of a company, but the market capitalization does not.

Based on the aforesaid analyses and in order to reflect the latest operation status of the Target Company, the Valuer considered that the suitable multiple in this valuation is EV/S ratio which are derived by the enterprise value ("**EV**") divided by revenue for the last twelve months as at the Valuation Date.

The market value of the Target Company is calculated by using EV/S ratio of the comparable companies and then taken into account of market liquidity discount and control premium as the appropriate adjustment.

Having considered (i) the Valuation was prepared by the Valuer in accordance with the applicable requirements and standards; and (ii) that the Valuer has considered the generally accepted business enterprise valuation approaches and the circumstances of the Target Company before adopting the market approach, the Board is of the view that the adoption of market approach for the Valuations is fair and reasonable.

Basis of opinion

The Valuer has conducted valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include a review of the legal status and financial condition of the Target Group and an assessment of key assumptions, estimates, and representations made by the proprietor.

Valuation assumptions

In determining the market value of the equity interest in the Target Company, the Valuer make the following key assumptions:

- All relevant legal approvals and business certificates or licenses to operate the business in which the Target Group operates or intends to operate have been or would be officially obtained and renewable upon expiry;

- There will be no major change in the political, legal, economic and social environment in which the Target Group operates or intends to operate;

- Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing;

- It is assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;

- The financial and operational information about the Target Group provided by the Company and the Target Company is accurate and it is relied to a considerable extent on such information in arriving at the opinion of value; and

- There are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value.

Market multiple

In determining the price multiple, the initial selection criteria include the followings:

- The comparable companies are publicly listed;

- The comparable companies primarily engaged in OEM/ODM of health products and functional foods with such relevant segments having accounted for no less than 50% of their respective total revenues for the latest available financial data; and

- EV/S ratio as at the Valuation Date of the comparable companies are available.

As sourced from Capital IQ, a reliable third party database service provider designed by Standard & Poor's (S&P), an exhaustive list of nine comparable companies satisfying the above criteria was obtained on a best effort basis. The Valuer is of the opinion that each of them is considered as a fair and representative sample.

The average and median of EV/S Ratio of the comparable companies as at the Valuation Date were 1.34 times and 1.08 times respectively.

*Discount for lack of marketability ("**DLOM**")*

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

The Valuer therefore applied DLOM to calculate the valuation of the Target Company as it is not a listed company.

The Valuer assessed the DLOM using the put option method, which is one of the most commonly used theoretical models. The concept is that when comparing a public share and a private share, holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. By using the put option method and based on the above assumptions, the estimated DLOM is around 20%.

Control premium

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest of a business enterprise that reflects the power of a control.

Upon completion of the Acquisition, the Company will hold 51% equity interest in the Target Company which is a controlling interest in the Target Company. Therefore, the Valuer has also taken into account the control premium to calculate the valuation of the Target Company.

The control premium adopted in the Valuation is 25%, with reference to the control premium of closed transactions in consumer staples and healthcare industry related to the production and sales of health products and functional foods within 3 years prior to the Valuation Date.

Having considered the above, the Directors consider the Consideration is fair and reasonable.

Completion

The Target Company shall complete the registration of the Equity Transfer (including, among other things, the change of shareholders and articles of association) and obtain the updated business license within twenty (20) Business Days after signing of the Agreement. Completion shall take place on the date on which the Target Company obtains the updated business license.

Upon Completion, 51% of the equity interest in the Target Company will be held by the Purchaser and 49% of the equity interest will be held by the Vendor and therefore the Target Company will become a non-wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into those of the Group.

Transitional Period

During the transitional period from the date of signing of the Agreement to the Completion Date, the Target Company and the Vendor undertake that the Target Company:

(1) shall operate its business in a normal manner, maintain its relationship with the clients or other business partners and maintain the employment of the management and core technical personnel to ensure that its business, reputation and operation will not be materially adversely affected upon Completion;

(2) shall not pay any dividends or repurchase its equity interest, nor conduct any unusual transaction or incur any unusual liabilities;

(3) shall not repay any loans in advance and shall pay due accounts payable and other debts on time in its normal operation;

(4) shall fulfill signed agreements, contracts or other documents related to its assets and business in a timely manner;

(5) shall use its best efforts to ensure its continuous legitimate operation, acquire and maintain all necessary government certificates and other approval and consent;

(6) shall not sell, transfer or grant license on its material assets (including its intellectual properties, but excluding appropriate and necessary license of intellectual properties in its normal operation), nor create any mortgage or pledge or any encumbrances or limitation of rights on its material assets;

(7) shall not amend its articles of association (other than the change of articles of association pursuant to the Equity Transfer);

(8) shall not provide any guarantee;

(9) shall not sell, transfer or agree to purchase its equity interest, nor create any mortgage or pledge or other encumbrances or limitation of rights on its equity interest;

(10) shall not be spin-off, dissolved, merged with any third party, nor acquire the equity interest, assets or business of any third party;

(11) shall not breach the Agreement and other relevant transactions documents by act or omission;

(12) shall not solicit any other investors or accept inquiries from any other investors, or discuss investment and financing with other parties, nor provide any information on investing in the Target Company to any other parties;

(13) shall promptly notify the Purchaser in writing of any event, fact, condition, change or other circumstance that has caused or may cause material adverse effects on the Target Company;

(14) shall handle the tax matters of the Target Company in a customary manner in compliance with relevant laws and regulations;

(15) shall not engage in any act prohibited by the Agreement, laws and regulations.

(16) shall notify the Purchaser in writing within three (3) Business Days after occurrence of any event or fact which may have material adverse effects on the Target Company, any legal proceedings, arbitration, enforcement, contingent liabilities of the Target Company and other related matters that may have material adverse effects on the Purchaser or the Acquisition.

Directors, General Manger and Supervisor

Directors

The Board of Target Company shall consist of three directors, among which one director shall be nominated by the Vendor and two directors shall be nominated by the Purchaser. The chairman of the Target Company shall be nominated by the Purchaser and shall be elected and appointed by the Board of Target Company. The chairman of the Target Company shall also serve as the legal representative of the Target Company. The resolution of the Board of Target Company shall be passed by more than half of the directors.

General manager

The Target Company shall have one general manager and several deputy general managers. The general manager shall be assigned by the Vendor. The deputy general managers shall be nominated by the general manager, among which one deputy general manager in charge of financial affairs and one deputy general manager in charge of daily operation shall be nominated by the Purchaser. All the general manager and deputy general managers shall be appointed or dismissed by the Board of Target Company.

Supervisor

The Target Company shall not set up a board of supervisors but shall have one supervisor. The supervisor shall be nominated by the Vendor.

All parties to the Agreement shall ensure the approval of the resolutions in respect of the aforementioned arrangement in the general meeting or the board meeting of the Target Company.

Termination

The Agreement may be terminated in the following circumstances:

(1) any representations or warranties made by the Vendor or the Target Company are materially untrue or have material omissions at the material time they were made or at the date of signing of the Agreement or on the Completion Date;

(2) the Target Company or the Vendor fails to perform its undertakings, obligations or liabilities pursuant to the terms as set out under the section headed "Transitional Period" above, and fails to remedy such default within twenty (20) Business Days after receiving written notice from the Purchaser;

(3) registration of the Equity Transfer is not completed within twenty (20) Business Days after signing of the Agreement due to reasons attributable to the Target Company or the Vendor;

(4) if the Purchaser fails to pay any tranche of the Consideration on time for more than ten (10) Business Days, the Vendor shall have the right to unilaterally terminate the Agreement.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in the PRC with limited liability which is principally engaged in research, production and sales of health products, functional foods and skincare products in the field of soft capsule dosage form. As at the date of this announcement, the Target Company is wholly owned by the Vendor.

The net loss before and after taxation for the years ended 31 December 2021 and 2022 and for the nine months ended 30 September 2023 of the Target Company prepared in accordance with the China Accounting Standard for Business Enterprises are summarized and set out below:

	For the year ended 31 December 2021 (unaudited) *RMB million*	**For the year ended 31 December 2022 (unaudited)** *RMB million*	**For the nine months ended 30 September 2023 (unaudited)** *RMB million*
Net loss before tax	2.92	7.23	5.15
Net loss after tax	2.92	7.23	5.15

The unaudited net assets value of the Target Company as at 30 September 2023 based on the unaudited consolidated financial statement of the Target Company prepared in accordance with the China Accounting Standard for Business Enterprises was approximately RMB47.54 million.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in (i) pharmaceutical products business; (ii) finance leasing business; and (iii) genetic testing and molecular diagnostic services. Revenue generated from pharmaceutical products business accounted for majority of total revenue of the Group for recent years. There has been a substantial increase in the general cost of traditional Chinese herbal materials in the PRC in recent years which has inevitably affected the gross profit margin of the sales of our self-developed pharmaceutical products. In addition, the pharmaceutical products business of the Group has substantially relied on the Group's original products with customers concentrated in the southern China.

Considering the increasing costs of raw materials and simple product portfolio of the Group, the Board is of the view that the Group needs to further diversify the pharmaceutical and healthcare product portfolio in order to seize future growth opportunities.

The Board noted that the Meeting of Political Bureau of the Communist Party of China Central Committee considered the "Healthy China 2030" Plan" in 2016, pursuant to which, (i) "Healthy China" has been upgraded to a state-level strategy; and (ii) the target market size of the healthcare industry is expected to grow from more than RMB8 trillion in 2020 to RMB16 trillion in 2030. With reference to the National Bureau of Statistics of China, both the total population and the population aged 65 and over have generally been growing in the PRC in recent years. In addition, the gross domestic products (GDP) of the PRC have been continuously growing, and a compound annual growth rate (CAGR) of approximately 6.3% was recorded during the last five full years (2019 to 2023). In line with the continuous development of national economy, the PRC's disposable income per capita grew from approximately RMB30,733 in 2019 to approximately RMB39,218 in 2023, representing a CAGR of approximately 6.3%. The nationwide per capita consumption expenditure in healthcare and medical services grew from approximately RMB1,902 in 2019 to RMB2,460 in 2023, representing a CAGR of approximately 6.6%. Considering the (i) aging population issue in the PRC; (ii) the increase in the public awareness of the importance of good health; (iii) the promulgation of the Outline of "Healthy China 2030" Plan; and (iv) the PRC economy, the Board is of the view that the outlook of PRC healthcare industry is positive.

The main products of the Target Company, which is based in the northern China, include ODM/OEM propolis healthcare products and propolis products and lycopene products under self-owned brands. Compared with the Group's original products, the main products of the Target Company, such as propolis products and lycopene products, have a relatively wide range of target customers. Furthermore, the raw materials of propolis products and lycopene products, including honey and tomatoes, are not in the same supply chain of the traditional Chinese herbal materials, which the Company considers may form a certain risk hedging in terms of the Group's production costs. As such, the Board believes that the Acquisition would help the Group to diversify the product portfolio, widen the geographical coverage of products and lower the concentration risk in the procurement of raw materials of the pharmaceutical and healthcare products business.

In addition, the Board considers that the Target Company is a pioneer in the soft capsule dosage form industry in the PRC. The Target Company is the research and development and trial production base of the first automatic rolling mode soft capsule machine in the PRC, a participant of the compilation of national standards for soft capsule machine in the PRC, and the developer of the first propolis soft capsule and the first liquid calcium soft capsule in the PRC. As soft capsule dosage form has also become increasingly popular among pharmaceutical and healthcare products, the proven technology and established production base possessed by the Target Company in respect of soft capsule dosage form shall allow the Group to further develop more pharmaceutical and healthcare products in the future.

Despite that the Target Company recorded loss after tax of approximately RMB2.92 million, RMB7.23 million and RMB5.15 million for the year ended 31 December 2021, 2022 and for the nine months ended 30 September 2023, the Board noted that sales of ODM/OEM products accounted for majority of the total revenue of the Target Company with relatively low gross profit margin compared with their products under self-owned brand, while the Target Company was still in the process of developing its downstream sales channels targeting retail customers for its products under self-owned brands. With the developed network for retail sales and industry experiences in the pharmaceutical and healthcare products market, the Group can help the Target Company expand the sales channels of their products under self-owned brand and thus may help improving the financial performance and profitability of the Target Company.

The Group is of the view that there is substantial room for business growth in the pharmaceutical and healthcare products market in the PRC, which has a significant elderly population, particularly in terms of per capita consumption. The Acquisition is in line with the development strategy of the Group to expand its existing product portfolio in the pharmaceutical and healthcare products industry. Furthermore, the Acquisition will allow the Group to utilise the proven technology and production base of the Target Company in future development of new products. The synergies to be created by the Acquisition will provide the Group with long-term and strategic growth opportunities.

Taking into consideration of the aforesaid, the Directors consider that the terms and conditions of the Agreement are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PURCHASER

The Purchaser is an investment holding company established in the PRC with limited liability and is a wholly-owned subsidiary of the Company. The Company is an investment holding company. The Group is principally engaged in (i) pharmaceutical products business; (ii) finance leasing business; and (iii) genetic testing and molecular diagnostic services.

INFORMATION ON THE VENDOR

The Vendor is an individual and a merchant who owns the entire equity interest in the Target Company as at the date of this announcement. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor is an Independent Third Party.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio as calculated under Rule 14.06 of the Listing Rules in respect of the Acquisition is more than 5% but is less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules. The Acquisition is subject to the reporting and announcement requirements but is exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

DEFINITIONS

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

"Acquisition"	the acquisition of the Equity Interest by the Purchaser from the Vendor pursuant to the terms and conditions of the Agreement
"Agreement"	the equity transfer agreement dated 1 March 2024 entered into between the Vendor and the Purchaser in relation to the Acquisition
"Board"	the board of Directors
"Board of Target Company"	the board of directors of the Target Company
"Business Day(s)"	a day (other than a statutory holiday) on which licensed banks are generally open for business in the PRC throughout their normal business hours
"Company"	Sanai Health Industry Group Company Limited 三愛健康產業集團有限公司, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 1889)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement
"Completion Date"	the date on which Completion takes place
"Consideration"	the consideration payable by the Purchaser to the Vendor for the Equity Interest, being RMB33.15 million
"Director(s)"	the director(s) of the Company
"EBIT"	earnings before interest and taxes
"Equity Interest"	51% of the equity interest in the Target Company
"Equity Transfer"	the transfer of 51% of the equity interest in the Target Company from the Vendor to the Purchaser
"Group"	the Company and all of its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Third Party"	any person or company and their respective ultimate beneficial owner(s) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons (as defined in the Listing Rules)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"ODM"	original design manufacturing, a business model involving designing and manufacturing products or components for branding and resale by the customer
"OEM"	original equipment manufacturing, a business model involving manufacturing products or components in accordance with the customer's design and specifications for branding and resale by the customer
"PRC"	the People's Republic of China, which, for the purpose of this announcement, shall exclude Hong Kong, the Macao Special Administrative Region and Taiwan
"Purchaser"	Beijing Bafuluo Technology Co., Ltd.* 北京巴夫羅科技有限公司, a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Beijing Hangyang Health Technology. Co., Ltd.* 北京航洋健康科技有限公司, a company established in the PRC with limited liability
"Target Group"	the Target Company and its subsidiaries

"Vendor"	Mr. Xie Haijing (謝海京), a merchant who owns entire equity interest in the Target Company as at the date of this announcement
"%"	per cent

* *For identification purpose only*

By order of the Board
Sanai Health Industry Group Company Limited
She Hao
Executive Director

Hong Kong, 1 March 2024

As at the date of this announcement, the Board comprises five executive directors, namely, Mr. Chen Chengqing, Mr. Gao Borui, Mr. Yuan Chaoyang, Professor Zhang Rongqing and Mr. She Hao, one non-executive director, namely, Mr. Xiu Yuan and three independent non-executive directors, namely, Professor Zhu Yi Zhun, Mr. Khor Khie Liem Alex and Mr. Zhang Ruigen.