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Shunten International (Holdings) Limited

順騰國際(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 932)

SUPPLEMENTAL ANNOUNCEMENT

**DISCLOSEABLE TRANSACTION:
ACQUISITION OF 43.05% ISSUED SHARE CAPITAL IN
AGGRESSIVE RESOURCES LIMITED INVOLVING THE ISSUE OF
CONSIDERATION SHARES
UNDER GENERAL MANDATE**

Reference is made to the announcements (the “**Announcements**”) of the Company dated 12 August 2021 and 31 August 2021 in relation to the acquisition (the “**Acquisition**”) of 21,525 shares of Aggressive Resources Limited. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

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

BASIS OF CONSIDERATION

As disclosed in the Announcements, the Consideration was determined with reference to, among other things, the Valuation, which the Company considered to be fair and reasonable since (i) the Valuer is an independent professional party engaged by the Company; (ii) the Valuer has the necessary qualifications to perform the Valuation and also has sufficient experience in carrying out similar valuations; (iii) the scope of work carried out by the Valuer is appropriate for the present engagement; and (iv) the Board has carefully reviewed the valuation assumptions and methodologies adopted by the Valuer as well as the criteria for selecting the comparables companies used in calculating the Weighted Average Cost of Capital (“WACC”) and considered the same to be fair and reasonable. The Board considers that the Target Company’s minimal profit in 2020 of approximately HK\$0.36 million has been properly taken into account by the Valuer when formulating the Valuation.

Methodology of and assumptions adopted by the Valuation

In the Valuation, income approach was adopted to derive the market value of 100% equity interest of the Target Group. The principle of such approach is that the value of the equity interest can be measured by the present worth of the economic benefits to be received over the asset life of the Target Group, which estimates the future economic benefits and discounts these benefits to their present value using an appropriate discount rate for all risks associated with realising those benefits. The Valuer conducted the Valuation based on discounted cash flow method within income approach.

With the discounted cash flow method used, all future cash flows are estimated and discounted to give them a present value. The discount rate used is the required rate of return of selected comparable companies, which are an exhaustive list of listed companies in Hong Kong and Nasdaq with similar business exposure in relation to the principal activity of the Target Group. For determination of such discount rate, the WACC, which is considered to be an appropriate discount rate to be applied to discount the future expected cash flows relating to the business of the Target Group, is adopted in the Valuation.

The Valuer has made the following assumptions in the Valuation:

- the current financial, economic, taxation, market and political conditions which prevail in the regions in which the Target Group is operating will have no material change.
- inflation and interest rates will have no material change from the rates prevailing as at the valuation date.
- competent management, key personnel and technical staff will be maintained to support the ongoing operation of the Target Group.

- the information regarding the Target Group provided is true and accurate.
- The turnover days and percentage ratio of working capital are derived from taking average of the actual ratio and percentage of the Target Group in the past two financial years (i.e. 2019 and 2020).
- underlying assumptions in relation to Hong Kong such as risk-free rate, long-term cost of debt and market risk premium are also adopted in calculated the WACC.

The Valuer has also taken into account the expected revenue of the Target Group based on the binding long-term sales contract signed, and a discount for the lack of marketability for a share of stock in a privately held company.

Taking into account of the above, the Company considers that the Valuation is fair and reasonable, and hence reliable as a reference for determining the Consideration.

Moreover, the Target Group owns a number of established health supplement brands in Hong Kong, including but not limited to “濟公堂” and “月兔牌” and popular products such as “香港老牌-保胃丹”, “名古屋-牛皮の癬” and “濟公堂-五鞭海狗丸”. Based on the information provided by the Vendor, the Target Group recorded a profit of approximately HK\$11 million in 2018 and a profit of approximately HK\$4.5 million in 2019 respectively. As represented by the Vendor, the downward trend in 2019 was mainly attributed to the social movement in Hong Kong and hence the hindered retail business environment and weakened retail market. Although the Target Group merely recorded a profit of approximately HK\$0.36 million in 2020, it is the understanding of the Board that the drastic decrease in profit was mainly a result of the poor retail market which was severely hit by COVID-19, and thus was a special circumstance which deviated from its normal performance. As such, the Board considered that it is not appropriate to solely focus on the Target Group’s single-year performance in 2020 but should also take into account other factors such as (i) the historical performance of the Target Group; (ii) the estimated brands and products of the Target Group; (iii) the binding long-term sales contracts entered into by SBTL in relation to the supply of health and beauty products which are effective for the period from 1 July 2021 to 31 December 2022; and (iv) the synergy effect brought by the Acquisition, being the opening up of new sales channels and new markets to the Group’s products.

In view of the stabilizing social environment and epidemic situation and improving retail market in recent months, coupled with the binding long-term sales contracts entered into by SBTL with a guaranteed aggregate purchase amount, the Board is confident that the profit of the Target Group will be greatly improved in 2021, and therefore the Consideration is fair and reasonable.

REASONS FOR AND BENEFITS OF THE ACQUISITION

At present, the majority of the Group's products are distributed as shelved products in the stores of one of the largest retail chains of health and beauty products in Hong Kong (the "**Existing Retail Chains**"). If the Group's relationship with the Existing Retail Chains is adversely affected for whatever reason resulting in the Existing Retail Chains restricting or ceasing sale of the Group's products in the stores of the Existing Retail Chains, the Group will need to source other channels to sell its products to the general public customers. To diversify the risk of reliance on the Existing Retail Chains, the Group is active in sourcing other channels to sell its products.

As the Target Group is currently distributing its health supplements and products through the stores of the Houseware Retail Chain, being a renowned houseware and consumables retail chain in Hong Kong, Macau and Singapore comprising approximately 360 stores in Hong Kong, the management believes that the Acquisition provides the Group with a good platform to open up new sales channels and new markets (e.g. Macau and Singapore) for selling its existing health products through business cooperation with the Target Company.

Prior to the Acquisition, the management of the Company has considered approaching other sales channels including the Houseware Retail Chain itself. However, the building of new sales channel would require extra time and resources for negotiation with the representatives of the potential sales channels, which may lead to potential delay in launching the products in the new markets. The management of the Company therefore considers that the Acquisition would be a viable course to expand the sales channels of the Group in a more cost-effective manner.

The management of the Company have considered the potential business development opportunity and the synergies that the Acquisition can bring to the existing business of the Group based on the findings on the valuation report from the Valuer. The management of the Company believes that the benefits of the potential cooperation with the new business channels will be a new driving force to the revenue of the Group, which together with the time and resources saved for building new distribution channels, shall outweigh the costs of the Acquisition. Therefore, the Directors consider that the Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Also, the Board considered that the Acquisition provides the Group with a good platform to build cooperation and distribution relationship with the Houseware Retail Chain. The Target Group has been liaising with the Houseware Retail Chain to expand the range of products distributed at the outlets of the Houseware Retail Chain by the inclusion of its existing and/or new health products together with those of the Group. The Company understands that as at the date of this announcement, the Houseware Retail Chain has already given very positive feedback on the cooperation/distribution invitation as the Houseware Retail Chain considers that the brand of “御藥堂” can enhance the product portfolio of the health products currently offered at the Houseware Retail Chain, and that the expansion is also in line with the Houseware Retail Chain’s business strategy to expand its product portfolio beyond household products. As at the date of this announcement, no binding agreement or memorandum of understanding has been entered into between the parties, and the Group and the Houseware Retail Chain are currently engaged in detailed discussions as to the mode and terms of cooperation before any agreement or memorandum could be entered into.

By Order of the Board
Shunten International (Holdings) Limited
WANG Xihua
Executive Director

Hong Kong, 3 September 2021

As at the date of this announcement, the executive Directors are Mr. WANG Xihua and Mr. LAI Wei Lam, William; and the independent non-executive Directors are Mr. LEUNG Winson Kwan Yau, Mr. TAM Kin Yip and Mr. LEUNG Man Loon.