奧園健康生活集團有限公司
AOYUAN HEALTHY LIFE GROUP COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3662)

SUPPLEMENTAL ANNOUNCEMENT

CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 70% OF THE ISSUED SHARE CAPITAL IN MASTERWIN DEVELOPMENTS LIMITED

Reference is made to the announcement (the "**Announcement**") dated 17 December 2021 of Aoyuan Healthy Life Group Company Limited (the "**Company**") in relation to the acquisition of 70% of the issued share capital in Masterwin Developments Limited. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as defined in the Announcement.

The Company wishes to provide the Shareholders and potential investors with additional information on the Acquisition as follows:

BASIS OF THE CONSIDERATION

As disclosed in the Announcement, the consideration of RMB78,713,600 was determined after arm's length negotiations among the Parties with reference to, among other things, the appraised value of the entire issued share capital of the Target Company of approximately RMB112,448,000 as set out in the Valuation Report (the "**Valuation**") and other factors as set out in the paragraph headed "Reasons for and benefits of the Acquisition" in the Announcement.

The Target Company was incorporated as a member of the Parent Group in February 2019. China Aoyuan subsequently made an investment of USD15,000,000 in the Investment Fund through the Target Group in May 2019. The Target Group holds 33.33% interests in the management shares and 100% interests in the participating non-voting share of the Investment Fund, which is organized for the sole purpose of investing directly in an AI-driven healthcare company (the "**Healthcare Company**") based in both the PRC and the United States of America ("**U.S.**") and focused on commercializing early cancer detection tests through DNA methylation. The Investment Fund is currently holding certain preferred shares of the Healthcare Company, which amounts to approximately 5% equity interests in the Healthcare Company.

Valuation approach and assumptions

Approach

In the appraisal regarding the fair value of the equity value of the Target Company, MASTERPIECE Valuation Advisory Limited ("**Valuer**"), an independent valuer, has been provided with the information of the latest financing of the Healthcare Company, i.e. issuance of series B preferred shares, as of 15 March 2021 (the "**Issue Date**"). As the Issue Date was close to the Valuation Date and there had been no significant operating milestone and material changes in the Healthcare Company's business during this period, the Valuer considered a version of the guideline transactions (recent financing price) method under the market approach, the Backsolve Method, to derive the implied equity value for the Healthcare Company from an arm-length transaction as of the Issue Date and 30 September 2021 (the "**Valuation Date**").

The Backsolve Method applies the equity allocation model in reverse. The total equity value of the Healthcare Company is implied by the most recent financing price (the issue price of the preferred shares) at arm length transaction, the economic rights and the allocation assumptions regarding the time to exit events, volatility and risk-free rates for the Black-Scholes option pricing model in equity allocation.

The equity allocation method, as applied under the Black-Scholes model, is appropriate to use when the range of possible future outcomes is so difficult to predict that forecasts would be highly speculative. That is, use of the method under the Black-Scholes model is generally appropriate in situations to allocate the value of economic rights to each classes of shares.

In calculating the fair value of the series B preferred shares, the equity allocation method is sensitive to certain key assumptions and inputs in the Black-Scholes model, including the volatility of comparable companies, risk-free rate and the time of exit events. Fluctuation of market parameters would change the result of the equity allocation, given the total equity value of the Healthcare Company remained unchanged. The Valuer allocated the total equity value derived from the Backsolve Method using the actual transaction price of the series B preferred shares on the Issue Date to preferred shares and ordinary shares based on multiple scenarios as of the Valuation Date. Under this method, changes in market parameters in the

Black-Scholes model between Issue Date and the Valuation Date shall be reflected in the fair value of the preferred shares.

	Issue Date (15 March 2021)	**Valuation Date (30 September 2021)**
Volatility *(Note)*	69.81%	65.94%
Risk-free Rate *(Note)*	1.05%	1.04%
Time to exit events (Liquidation, redemption)	6 years	5.5 years
Expected time to IPO date	1.3 years	0.8 years

Note: Based on publicly available information.

Given no significant operating milestone was achieved between the issue date of the preferred shares and the Valuation Date, the implied equity value of backsolve from most recent financing price was used as the best estimate of the fair value of the equity value of the Healthcare Company as of the Valuation Date.

After the equity value as of the Valuation Date was determined, equity value was allocated to the various classes of equity based on the economic and control rights under three different scenarios: liquidation scenario, redemption scenario and conversion scenario to different classes of shares by adopting an equity allocation model.

Under liquidation scenario, holder of the preferred shares shall be entitled to receive required return in respect of the purchase price upon the occurrence of any voluntary or involuntary acquisition, liquidation, dissolution, or winding up of the Healthcare Company.

Under the redemption scenario, the holder of the preferred shares shall be entitled to receive required return in respect of the purchase price of the preferred shares without a qualified exit by the sixth anniversary of the issue date of the preferred shares.

Under the conversion scenario, the holder of the preferred shares shall have the right of conversion based on the conversion ratio to ordinary shares of the Healthcare Company.

The Valuer split the equity value of the Healthcare Company into different layers that of different classes shareholders would receive under each scenario. The fair value of each layer is the difference between the call options with strike prices of lower layer and upper layer respectively. The Black-Scholes option pricing model with the key assumption on time to exit events, volatility, and risk-free rates as of the Valuation Date are adopted in determine the fair values of the call options required for the value of the preferred shares under each scenario. The fair value of the preferred shares is derived by adding up the proportion of interest to be received by the preferred shares holders at each layer.

Assumptions

The specific key assumptions adopted in this valuation include:

- time to exit events is assumed as the sixth (6^{th}) anniversary of the issue date of the preferred shares for liquidation event (the "**Liquidation**") and redemption event (the "**Redemption**"), and the 1.3 years after the issue date of the preferred shares for the conversion event (the "**Conversion**");

- risk-free rate is based on the yield curve of US Treasury Strips as of the issue date;

- most recent financing price is based on the issue price of the preferred shares as of the issue date;

- volatility was determined based on the average annualized standard deviation of the historical stock prices of listed comparable companies for a period with length commensurate to the expected time to exit events;

The comparable public companies are selected with reference to the following selection criteria:

– the primary business of the companies is production and development of tests for early cancer detection;

– the companies are listed in major exchange markets in the U.S., Hong Kong and the PRC;

– the companies have sufficient listing and operating history; and

– the financial information of the companies is available to the public.

Set out below are several selected comparable public companies:

Company name	**Stock ticker**	**Business descriptio*n (Note)***	**Volatility as of the Issue Date (15 March 2021)**	**Volatility as of the Valuation Date (30 September 2021)**
EXACT Sciences Corporation	EXAS:US	EXACT Sciences Corporation is focused on developing and commercializing a non-invasive molecular screening test for the early detection and prevention of colorectal cancer. The test is a stool-based DNA test that identifies both precancer and cancer by detecting genetic mutations colorectal cancer cells.	69.52%	63.08%
Guided Therapeutics, Inc.	GTHP:US	Guided Therapeutics, Inc. is developing a painless test for the early detection of disease that leads to cervical cancer.	257.74%	267.08%
iCAD Inc.	ICAD:US	iCAD, Inc. provides advanced breast cancer detection and radiation therapy solutions. It offers advanced hardware and software, as well as management services designed to support cancer detection and radiation therapy treatments. iCAD serves customers in the USA.	67.46%	62.67%
VolitionRx Ltd	VNRX:US	VolitionRx Limited manufactures epigenetic cancer detection blood tests. Its tests are designed to detect the nucleosome patterns that are specific to cancer in the blood, and identify some of the major nucleosome varieties that differ between cancer types.	70.10%	68.80%
		Median	69.81%	65.94%

Note: Based on publicly available information.

Volatility was determined based on the average annualized standard deviation of the historical stock prices of listed comparable companies from public source for a period with length commensurate to the expected time to exit events, which is the sixth anniversary of the issue date of the preferred shares. Median of volatility among comparable companies are adopted to derive the result, which the Valuer considered to be a more reasonable approach to prevent the outliners from distorting the result.

In arriving at its opinion of value, the Valuer has considered the following principal factors:

- the general economic outlook and the specific economic and competitive factors affecting the Targe Company and the Healthcare Company, its industry and market;

- the nature and prospects of the industry where the Target Company and the Healthcare Company are operating;

- the financial and operating results of the Target Company and the Healthcare Company;

- the financial position and credit risk of the Target Company and the Healthcare Company;

- the market-derived investment returns of entities engaged in a similar line of business and returns from other similar types of business; and

- the currently prevailing long-term borrowing rate and risk-free interest rate in the capital market.

The major principal assumptions adopted in the Valuation are as follows:

- there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company and the Healthcare Company;

- there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values, and there is no responsibility for changes in market conditions after the valuation date;

- the information provided and the estimations/representations made by the management of the Company with regard to the Valuation are complete, accurate and reliable;

- the public and statistical information obtained from sources are deemed to be reputable, accurate and reliable;

- there will be no substantial fluctuation in the economic outlook and specific industry outlook affecting the continuity of the businesses of the Target Company and the Healthcare Company and the fair values of the underlying shares;

- there are no material changes, after the date of the Valuation Report, in the relevant corporate tax rates, interest rates, long term borrowing rates, and exchange rates from that currently prevailing in the countries that the Target Company and the Healthcare Company are operating which may significantly impact its businesses; and

- there will be no material changes as to the management and business strategies and operational structure, which will continue to be operated under the current existing and expected business model.

The Board's view on the fairness and reasonableness of the Valuation methodology and assumptions

The Board has conducted an interview with the responsible persons of the Valuer to enquire their experience in valuing similar biotechnology companies and the key assumptions and methodology adopted. The Board has also reviewed the Valuation Report and understood from the Valuer that the Valuation derives the value of equity interests (e.g., preferred shares) involved through market approach and backsolve method. Also, it reflects the value of rights and privileges of preferred shares by adopting the equity allocation model. Fair value of preferred shares was arrived from allocation of the equity value based on the recent financing round of the Healthcare Company. Accordingly, the Board considers the assumptions and methodology adopted in the Valuation are fair and reasonable.

The Board's assessment on the independence of the Valuer

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Valuer is a third party independent from the Group and its connected persons. As at the date of this announcement, the Valuer does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for the securities in any member of the Group.

As at the date of this announcement, the Valuer does not have any direct or indirect interests in any assets which have been, since 31 December 2020 (the date to which the latest published annual results of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The Board's assessment on the competence of the Valuer

The responsible persons of the Valuer in the Valuation are Mr. Oswald Au, Mr. Paul Hau and Mr. Benjamin Xu.

Mr. Oswald Au is the Managing Director of Masterpiece Valuation Advisory Limited. He is a member of Hong Kong Institute of Surveyors (General Practice), Associate Member of Australian Property Institute and a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years' experience in financial valuation, property valuation and business consulting in Hong Kong and the PRC. Also, he has advised clients in a range of industries, including pharmaceutical, biotech, technology and healthcare service, etc.

Mr. Paul Hau is the Associate Director of Masterpiece Valuation Advisory Limited. He is a member of Hong Kong Institute of Certified Public Accountants. He has over 8 years' experience in business valuation, merger & acquisition projects and business consulting in Hong Kong and the PRC. He has advised clients in a range of industries, including financial, biotech, artificial intelligence, technology and energy, etc.

Mr. Benjamin Xu is the Assistant Manager of Masterpiece Valuation Advisory Limited. He is a member of CFA Institute and FRM. He has over 5 years' experience in financial valuation, property valuation and business consulting in Hong Kong and the PRC.

Taking into account the above qualifications and experience of Mr. Au, Mr. Hau and Mr. Xu, the Board considers the Valuer as a competent expert in performing the Valuation.

The Board's assessment on the fairness and reasonableness of the Consideration

The Board has discussed with the responsible persons of the Valuer and cautiously reviewed the relevant basis, assumptions and methodology of the Valuation. The Board is of the view that the fair value of the preferred shares of the Healthcare Company is a reasonable estimate of the value of the equity interest in the Target Company and to derive the fair value of 70% of the issued share capital in the Target Company. In view of the above, the Board considers that the Consideration was suitably determined with reference to the Valuation and was therefore fair and reasonable.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Healthcare Company is currently in clinical trials in the PRC and U.S. with its liver cancer detection test, and its development program is primarily focused on liver, colon, breast and lung cancer. Its liver cancer detection test has been granted Breakthrough Device designation by the U.S. Food and Drug Administration ("**FDA**") in 2019 and is expected to obtain the first In Vitro Diagnosis (IVD) certification for liver cancer detection test based on ctDNA Methylation and to be approved by the FDA in 2022.

The Board considers that the health and wellness industry would have massive development potential in future, and commercialization of the early cancer detection tests developed by the Healthcare Company could provide a more convenient and cost-effective blood test for patients and healthcare providers. With the expectation of an extensive application of the Healthcare Company's early cancer detection tests after commercialization in the PRC, the Board is of the view that the early cancer detection tests could be applied in community health screenings, which would create synergies with the existing business of the Group.

Whilst the Group focuses on its core businesses of provision of property management services, the Group has always been evaluating the performance and prospect of the health and wellness business and exploring other business opportunities from time to time. The Acquisition provides a valuable opportunity for the Group to diversify its existing investment portfolio and take its first step to invest in the healthcare sector of the health and wellness industry, which is in line with the long-term planning and the strategic layout of the Group.

Having considered the foregoing, the Board (including the independent non-executive Directors) is of the view that the terms and conditions (including the Consideration) of the Sale and Purchase Agreement are on normal commercial terms or better, which are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

This supplemental announcement is supplemental to and should be read in conjunction with the Announcement. All other information and content set out in the Announcement remain unchanged and shall continue to be valid for all purposes.

By the order of the Board
Aoyuan Healthy Life Group Company Limited
Guo Zining
Chairman

Hong Kong, 13 January 2022

As at the date of this announcement, the executive Directors are Mr. Zheng Wei and Mr. Cheng Siu Fai; the non-executive Directors are Mr. Guo Zining and Mr. Ruan Yongxi; and the independent non-executive Directors are Mr. Hung Ka Hai Clement, Dr. Li Zijun and Mr. Wang Shao.