

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



四环医药

SihuanPharm

Sihuan Pharmaceutical Holdings Group Ltd.

四環醫藥控股集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 0460)

DISCLOSEABLE TRANSACTION

SUBSCRIPTION BY INVESTORS FROM THE STATE DEVELOPMENT AND INVESTMENT CORPORATION IN XUANZHU (SHIJIAZHANG) BIOPHARMACEUTICAL CO., LTD.

SUBSCRIPTION BY INVESTORS FROM THE STATE DEVELOPMENT AND INVESTMENT CORPORATION

On 21 August 2020, the Investors from the State Development and Investment Corporation have conditionally agreed to subscribe an aggregate of 18.60% equity interest (on a fully diluted basis) in Xuanzhu (Shijiazhuang) Biopharmaceutical Co., Ltd., an indirect wholly-owned subsidiary of the Company, at an aggregate Consideration of RMB800 million (equivalent to approximately HK\$897.2 million).

For the purposes of the Subscription, the relevant parties entered into the Subscription Agreement and the Shareholders Agreement on 21 August 2020.

THE SUBSCRIPTION

Pursuant to the Subscription Agreement, Investor A and Investor B have conditionally agreed to subscribe and the Target Company has conditionally agreed to issue RMB197,142,857.14 and RMB65,714,285.72 registered capital of the Target Company at the considerations of RMB600 million (equivalent to approximately HK\$672.9 million) and RMB200 million (equivalent to approximately HK\$224.3 million), respectively.

THE EMPLOYEE INCENTIVE SCHEME TRANSFER

It is intended that prior to the Completion and stipulated as a condition precedent under the Subscription Agreement that, Xuanzhu Hong Kong will transfer RMB79,695,000 registered capital of the Target Company, representing 6.93% equity interest, to the Employee Incentive Platforms and certain specified individual employees of the Target Group Companies at a consideration of RMB125,433,000 (equivalent to approximately HK\$140.7 million) so as to set up the Employee Incentive Scheme. Upon completion of the Employee Incentive Scheme Transfer, the equity interest of the Target Company will be held as to 93.07% and 6.93% by Xuanzhu Hong Kong and the Employee Incentive Scheme, respectively.

THE PUT OPTION

Pursuant to the Shareholders Agreement, the Investors shall have the right to require the Target Company or any of the Target Company's Shareholders to repurchase all or part of their respective equity interests in the Target Company in accordance with the terms of the Shareholders Agreement.

LISTING RULES IMPLICATIONS

Following the Completion and completion of the Employee Incentive Scheme Transfer, the Company's indirect equity interest in the Target Company will be diluted from 100% to approximately 75.76%, therefore, the Employee Incentive Scheme Transfer and the Subscription will constitute deemed disposals of the Company under Rule 14.29 of the Listing Rules. Furthermore, pursuant to Rule 14.22 of the Listing Rules, the Employee Incentive Scheme Transfer and the Subscription will be aggregated as these transactions involve the dealing in equity interests in the Target Company and will be completed within a 12-month period.

The grant of the repurchase rights to the Investors under the Shareholders Agreement would be treated as a transaction and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules.

As the highest aggregated applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Employee Incentive Scheme Transfer and the Subscription is above 5% but less than 25%, the Employee Incentive Scheme Transfer and the Subscription constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules and are therefore subject to the reporting and announcement requirements under the Listing Rules.

The exercise of the Put Option is not at the discretion of the Company. According to Rule 14.74(1) of the Listing Rules, on the grant of the Put Option, the transaction will be classified as if the Put Option had been exercised. As the highest applicable percentage ratio for the grant of the Put Option is above 5% but less than 25%, the grant of the Put Option to the Investors constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

AS COMPLETION IS SUBJECT TO THE CONDITIONS PRECEDENT SET OUT IN THE SUBSCRIPTION AGREEMENT. THE SUBSCRIPTION MAY OR MAY NOT PROCEED. SHAREHOLDERS AND INVESTORS SHOULD EXERCISE CAUTION WHEN DEALING IN SECURITIES OF THE COMPANY.

BACKGROUND

On 21 August 2020, the Investors, the Target Company's Shareholders and the Target Company entered into the Subscription Agreement, pursuant to which the Investors have conditionally agreed to subscribe an aggregate of 18.60% equity interest (on a fully diluted basis) in the Target Company at an aggregate Consideration of RMB800 million (equivalent to approximately HK\$897.2 million) in accordance with the terms and conditions of the Subscription Agreement.

On the same day, the Investors, the Target Company's Shareholders and the Target Company entered into the Shareholders Agreement so as to regulate the rights and obligations of the Investors and the Target Company's Shareholders as the shareholders of the Target Company upon Completion.

THE SUBSCRIPTION AGREEMENT

Set out below are the principal terms of the Subscription Agreement:

Date: 21 August 2020

Parties:

- (1) Investor A;
- (2) Investor B;
- (3) Sun Moral;
- (4) Xuanzhu Biopharmaceutical;
- (5) Xuanzhu Hong Kong; and
- (6) the Target Company.

The Subscription

Pursuant to the Subscription Agreement, Investor A and Investor B have conditionally agreed to subscribe and the Target Company has conditionally agreed to issue RMB197,142,857.14 and RMB65,714,285.72 registered capital of the Target Company at the considerations of RMB600 million (equivalent to approximately HK\$672.9 million) and RMB200 million (equivalent to approximately HK\$224.3 million), respectively.

Basis of determining the Consideration

The Consideration payable by the Investors is arrived at arm's length negotiation between the parties to the Subscription Agreement with reference to (a) the unaudited consolidated financial information of the Target Company, (b) the future prospect of the Target Company and its products in the market, (c) the synergy that can be created among the Investors and the Target Company and (d) offers from other potential investors. As such, the Directors consider that the Consideration payable by the Investors under the Subscription Agreement is fair and reasonable.

Employee Incentive Scheme Transfer

As at the date of this announcement, the Target Company has a registered capital of RMB1,150 million and it is wholly-owned by Xuanzhu Hong Kong, and thus an indirect wholly-owned subsidiary of the Company. It is intended that prior to the Completion and stipulated as a condition precedent under the Subscription Agreement that, Xuanzhu Hong Kong will transfer RMB79,695,000 registered capital of the Target Company, representing 6.93% equity interest, to the Employee Incentive Platforms and certain specified individual employees of the Target Group Companies at a consideration of RMB125,433,000 (equivalent to approximately HK\$140.7 million) so as to set up the Employee Incentive Scheme. It is expected that such consideration will be settled on a deferred basis and will be accounted for as receivables by the Company until it is fully settled. Upon completion of the Employee Incentive Scheme Transfer, the equity interest of the Target Company will be held as to 93.07% and 6.93% by Xuanzhu Hong Kong and the Employee Incentive Scheme, respectively.

It is expected that the incentive will be granted by a mix of registered capital in the Target Company and/or share options exercisable for registered capital in the Target Company without involving the issuance of new securities by the Target Company. As such, the Employee Incentive Scheme does not constitute a share option scheme under Chapter 17 of the Listing Rules. As at the date of this announcement, the final terms and participants of the Employee Incentive Scheme have not been confirmed and will be determined by the management of the Target Company subsequently, the Company will comply with the relevant requirements under the Listing Rules and publish further announcement(s) as and when appropriate.

The consideration payable by the Employee Incentive Scheme is arrived at arm's length negotiation between the relevant parties with reference to (a) the unaudited consolidated financial information of the Target Company as at 31 December 2019, (b) the knowledge and experience that can be brought to the Group by the participating employees, (c) the incentive effect that can be provided to the participating employees and (d) the remuneration package the Group decided to provide to such employees. As such, the Directors consider that the consideration payable by the Employee Incentive Scheme under the Employee Incentive Transfer is fair and reasonable.

Immediately upon Completion, the shareholding structure of the Target Company will be as follows:

| Shareholder | Amount of registered capital (RMB) | Shareholding upon Completion |
|-------------------------------|---|---|
| Investor A | 197,142,857.14 | 13.95% |
| Investor B | 65,714,285.72 | 4.65% |
| Xuanzhu Hong Kong | 1,070,305,000.00 | 75.76% |
| The Employee Incentive Scheme | <u>79,695,000.00</u> | <u>5.64%</u> |
| | <u><u>1,412,857,142.86</u></u> | <u><u>100.00%</u></u> |

Conditions Precedent

Unless waived by the Investors in writing, Completion of the Subscription Agreement is conditional upon the satisfaction of the following conditions precedent:

- (a) no relevant governmental or regulatory authority or body, court or agency having granted any order or made any decision that restricts or prohibits the implementation of the transactions contemplated under the Subscription Agreement; and no pending or reasonably foreseeable proceedings, decisions or restrictions that has caused or will cause material adverse effect to the implementation of the transactions contemplated under the Subscription Agreement;
- (b) the Target Company having passed the shareholders' resolution in relation to the approval of the execution of the Transaction Documents and all shareholders of the Target Company having given up their respective rights of first refusal to purchase the equity interests of the Target Company;
- (c) the Target Company and the Target Company's Shareholders having obtained all the governmental approvals and authorisations and/or waivers from third parties in relation to the execution of the Transaction Documents and the performance of the transactions contemplated thereunder. The execution of the Transaction Documents and the performance of the transactions contemplated thereunder shall not render any of the Target Group Companies in breach of any applicable PRC laws or agreements and will not cause material adverse effect to the Target Group Companies;
- (d) each of the parties having duly executed the Transaction Documents and the Employee Incentive Scheme having been established and the accession agreements having been signed by the participants to the scheme;
- (e) the representations and warranties provided by the Target Company and the Target Company's Shareholders remaining true, complete and accurate on the day of Completion, and prior to the Completion, the undertakings under the Subscription Agreement having been performed and no breach of the Transaction Documents which will cause material adverse effect to the Target Company;

- (f) there having not been any material adverse changes to the financial status of the Target Company prior to the Completion;
- (g) no occurrence of events or changes which has caused or can reasonably be foreseen that can cause material adverse impact to the assets, financial structure, indebtedness, technology, profitability or ordinary operation of the Target Group Companies;
- (h) the Target Company and Jilin Huisheng Biological Pharmaceutical Co., Ltd. (吉林惠升生物製藥有限公司), an indirect wholly-owned subsidiary of the Company, having executed the agreement in relation to the transfer of janagliflozin products to Jilin Huisheng Biological Pharmaceutical Co., Ltd.;
- (i) certain management of the Target Company and the Target Company having executed a non-competition agreement;
- (j) the Employee Incentive Scheme having been approved by the Target Company internally, the relevant agreements in relation to the same having been executed, the Employee Incentive Platforms having been established and the required procedures and registrations with the relevant PRC governmental authorities in relation to the Employee Incentive Scheme Transfer having been completed;
- (k) the director representative nominated by the Investors having been appointed as a director of the Target Company and the composition of the board of directors of the Target Company having complied with the Shareholders Agreement and the amended articles of association of the Target Company;
- (l) the Target Company having completed the registration of the Subscription and the relevant changes to its board composition with the relevant PRC governmental authorities and having provided the Investors with the new business license; and
- (m) the Target Company and the Target Company's Shareholders having provided the Investors with the confirmation letters confirming the satisfaction of all the conditions precedent (excluding those waived by the Investors) and the relevant supporting documents.

If Completion does not take place within the 180 business days following the day on which all the above conditions precedent are satisfied and/or waived by the Investors or before a later day to be agreed among the parties, the Subscription Agreement can be terminated by the Target Company.

Completion

Within the 10 business days following the satisfaction and/or waiver of the conditions precedent above, each of the Investors shall transfer RMB200 million (equivalent to approximately HK\$224.3 million) in cash to the bank account of the Target Company as specified in the Subscription Agreement as the first instalment. Completion shall then take place on the day on which the first instalment of the Consideration is paid by the Investors.

Subject to the requirements that the first instalment of RMB200 million has been paid by Investor A and the conditions precedent under the Subscription Agreement remain as satisfied or otherwise waived, Investor A shall transfer the balance of RMB400 million (equivalent to approximately HK\$448.6 million) to the Target Company on or before 31 October 2020.

If Completion does not take place within the 180 business days following the date of the Subscription Agreement or before a later day to be agreed among the parties, the Subscription Agreement can be terminated by any Investor (with respect to such Investor only).

AS COMPLETION IS SUBJECT TO THE CONDITIONS PRECEDENT SET OUT IN THE SUBSCRIPTION AGREEMENT. THE SUBSCRIPTION MAY OR MAY NOT PROCEED. SHAREHOLDERS AND INVESTORS SHOULD EXERCISE CAUTION WHEN DEALING IN SECURITIES OF THE COMPANY.

THE SHAREHOLDERS AGREEMENT

Set out below are the principal terms of the Shareholders Agreement:

Date: 21 August 2020

Parties:

- (1) Investor A;
- (2) Investor B;
- (3) Sun Moral;
- (4) Xuanzhu Biopharmaceutical;
- (5) Xuanzhu Hong Kong; and
- (6) the Target Company.

Management of the Target Company

The board of directors of the Target Company shall comprise five directors, one of which shall be jointly nominated by the Investors and the board meeting shall be convened at least once every year. Except for the reserved matters as specified in the Shareholders Agreement, all matters shall be passed by at least half of the board of directors of the Target Company (whether or not passed by the director nominated by the Investors). All reserved matters as specified in the Shareholders Agreement, including but not limited to changes to the board composition, amendments of articles of association and changes to the registered capital, shall be passed by at least half of the board of directors of the Target Company (must also be passed by the director nominated by the Investors). The reserved matters shall also apply to each of the Target Group Companies and each director shall have one vote.

The Target Company shall have no board of supervisors but one supervisor to be appointed by Xuanzhu Hong Kong.

Right of First Refusal and Co-Sale Right

In the event that any shareholder of the Target Company (excluding the Investors) proposes to transfer its equity interest in the Target Company to third parties other than the Investors, the Investors shall have the right of first refusal to elect to purchase all the equity interest on the same terms at the same consideration.

If the Investors do not exercise their respective rights of first refusal, each such Investor shall have the right to participate in the transfer to the third parties on the same terms at the same consideration.

Pre-emptive Right

In the event that the Target Company proposes to increase its registered capital, the Investors shall have the pre-emptive right to participate in the subscription for such registered capital on the same terms on pro-rata basis.

Value Protection and Anti-Dilution

Except for the exceptions as specified in the Shareholders Agreement or unless with the prior written approval of the Investors, the Target Company shall not issue new equity interest or allow subscription to its registered capital by new investors at a consideration which is lower than the Consideration paid by the Investors for RMB1.00 registered capital under the Subscription or any of the Target Company's Shareholders shall not transfer its equity interest in the Target Company at a consideration which is lower than the Consideration paid by the Investors for RMB1.00 registered capital under the Subscription.

In the event that the Target Company issues new equity interest or allows subscription to its registered capital by new investors at a consideration which is lower than the Consideration paid by the Investors for RMB1.00 registered capital under the Subscription, the Target Company's Shareholders shall indemnify the Investors in accordance with the terms under the Shareholders Agreement.

Repurchase Rights

In the event that any of the circumstances specified in the Shareholders Agreement occurs (including non-consummation of the Qualified IPO of the Target Company before 31 December 2024 or a later date to be agreed among the parties), the Investors shall have the right to require the Target Company or any of the Target Company's Shareholders to repurchase all or part of their respective equity interests in the Target Company in accordance with the terms of the Shareholders Agreement. Such arrangement constitutes a grant of put option by the Group to the Investors under Rule 14.73 of the Listing Rules.

The Company will comply with the relevant requirements under the Listing Rules in relation to the Qualified IPO and publish further announcement(s) as and when appropriate.

The exercise price of the Put Option payable by the Group shall be equivalent to the Consideration paid by such Investor for such amount of registered capital under the Subscription Agreement together with an interest at a simple interest rate of 8% per annum, accruing from the day of payment of the Consideration up to the date on which the Target

Company's Shareholders or the Target Company fully settles the exercise price of the Put Option. Any of the Investors shall within 120 days following the occurrence of any of the circumstances exercises the Put Option and Sun Moral, Xuanzhu Biopharmaceutical, Xuanzhu Hong Kong or the Target Company shall settle the exercise price of the Put Option within 210 days upon receipt of the above request from any of the Investors.

Liquidation Rights

In the event of liquidation, dissolution or winding of the Target Company or certain circumstances as specified under the Subscription Agreement, after satisfaction of the claims in accordance with the laws, the remaining assets of the Target Company shall be distributed in cash to the Investors in priority over other creditors of the Target Company. The amount to be distributed to the respective Investors shall be (a) the amount of the remaining assets such Investor is entitled in accordance with its shareholding in the Target Company on a pro rata basis and (b) the sum of the Consideration made by such Investor together with an interest at a simple interest rate of 8% per annum, whichever is higher.

In the event that the amount of distribution available to the Investors is lower than (b) above, Sun Moral and Xuanzhu Hong Kong shall indemnify the shortfall to the Investors.

Transfer Restrictions

Unless with the prior written approval of the Investors:

- (a) Xuanzhu Biopharmaceutical and Xuanzhu Hong Kong shall not transfer, pledge and/or otherwise dispose of their respective direct and/or indirect equity interests in the Target Company;
- (b) Sun Moral shall not transfer, pledge and/or otherwise dispose of its direct and/or indirect equity interest in the Target Company which will result to a drop of its direct and/or indirect equity interest in the Target Company to lower than 50%;
- (c) the Company shall not, and the Target Company and the Target Company's Shareholders shall procure the Company not to transfer, pledge and/or otherwise dispose of their equity interests in the Target Company which will result to a drop of the Company's direct and/or indirect equity interest in the Target Company to lower than 50%; and
- (d) the participants of the Employee Incentive Scheme shall not transfer, pledge or otherwise dispose of its direct and/or indirect equity interest in the Target Company.

Further Issuance or Transfer to the Employee Incentive Scheme

As agreed in the Shareholders Agreement, upon Completion of the Subscription, an additional of RMB92,805,000 registered capital in the Target Company, representing approximately 6.57% of the enlarged registered capital of the Target Company upon the Completion, may either be transferred by Xuanzhu Hong Kong or issued by the Target Company to the Employee Incentive Scheme at the Group's discretion.

As at the date of this announcement, the details of the above arrangement (including but not limited to whether such equity interest in the Target Company will be transferred or issued to the Employee Incentive Scheme and the relevant consideration) have not been confirmed and will be determined by the management of the Target Company subsequently, the Company will comply with the relevant requirements under the Listing Rules and publish further announcement(s) as and when appropriate.

Right to Information and Inspection

As long as the Investors are interested in the equity interest in the Target Company, subject to the applicable rules in relation to disclosure of information by the Company under the Listing Rules, the Investors shall have right to access to certain information of the Target Company and its associated companies.

Amendments of Articles of Association of the Target Company

The articles of association of the Target Company shall be amended so as to reflect the arrangements under the Shareholders Agreement.

USE OF PROCEEDS AND FINANCIAL EFFECT OF THE SUBSCRIPTION

The net proceeds from the Subscription shall all be used for the development of the principal business of the Target Company and other purposes agreed by the Investors but shall not be used for purposes which are not related to the daily operation of the principal business of the Target Company.

Upon completion of the Subscription and the Employee Incentive Scheme Transfer, the equity interest of Xuanzhu Hong Kong in the Target Company will be diluted from 100% to approximately 75.76% and the Target Company will become an indirect non-wholly-owned subsidiary of the Company. As such, the accounts of the Target Company will continue to be recorded in the Group's consolidated accounts. As the effect of the Subscription will not result in a loss of the Group's control over the Target Company, any deemed disposal as a result of the Subscription will be accounted for as an equity transaction that will not result in the recognition of any gain or loss in profit or loss.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in the PRC with limited liability on 5 September 2018 and is engaged in the research, development, production and industrialisation of new drugs for tumor, metabolism and anti-infection in the PRC.

As at the date of this announcement, the Target Company is an indirect wholly-owned subsidiary of the Company. Upon completion of the Employee Incentive Scheme Transfer, the equity interest of the Target Company will be held as to 93.07% and 6.93% by the Company and the Employee Incentive Scheme, respectively. Upon completion of the Employee Incentive Scheme Transfer and the Subscription, the equity interest of the Target Company will be held as to 13.95%, 4.65%, 75.76% and 5.64% by Investor A, Investor B, Xuanzhu Hong Kong and the Employee Incentive Scheme, respectively.

The unaudited consolidated financial information of the Target Group Companies for the two financial years ended 31 December 2018 and 2019 is as follows:

| | For the year ended | |
|-----------------------|---------------------------|--------------------|
| | 31 December | |
| | 2018 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Revenue | 55,060 | — |
| Net (loss) before tax | (88,785) | (292,157) |
| Net (loss) after tax | (88,785) | (292,157) |

The unaudited consolidated net asset value of Target Group Companies as at 30 June 2020 was approximately RMB440,446,000.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND THE EMPLOYEE INCENTIVE SCHEME TRANSFER

Since the whole pharmaceutical industry environment has been operating with increasing uncertainties during the fiscal year ending 31 December 2020, the Group has further strengthened the consolidation of financial capacities in China to target for better cost savings and effectiveness in the longer term. To counteract uncertainties and pursue the Company's goals, one of the Group's main strategic initiatives is to diversify fund source.

The Board considers that the Subscription represents a valuable opportunity for the Group to realize the gain and support the cash flow for its strategic repositioning and will enhance the Group's operations and financial prospects in the long term. Furthermore, after the investors from the State Development and Investment Corporation have become shareholders of the Target Company, an innovative drugs platform of the Group, the Group and the State Development and Investment Corporation will be able to fully cooperate with each other in the research and development and introduction of innovative drugs in the future. The Group intends to apply the proceeds from the Subscription to further develop the Group's mid to late stage clinical trial product line and to introduce more late stage product projects, as such, the Group will be able to provide newer and better treatment solutions to patients across the PRC. The Board also believes that the Subscription and the Employee Incentive Scheme Transfer will help the Target Company to increase its efficiency and competitiveness and to adopt with the changes in governmental policies (such as the new Market Automation Holder system) and competing environment in the PRC. Also, the Subscription will assist the Group to incubate subsidiaries with competitive edges to operate independently by attracting investors or operating on a contract manufacturing organisation model.

In light of above, the Directors (including independent non-executive Directors) are of the view that the Subscription Agreement, the Shareholders Agreement and the transactions contemplated thereunder have been negotiated on an arm's length basis, agreed on normal commercial terms, and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES TO THE AGREEMENTS

The Company

The Company is an investment holding company, and the Group is a leading pharmaceutical group with the largest cardio-cerebral vascular drug franchise in PRC's prescription drug market in terms of market share. The Group has a differentiated and proven sales and marketing model, supported by an extensive nationwide distribution network covering around 10,000 hospitals through over 3,000 distributors in all 31 provinces, autonomous regions and cities throughout the PRC.

Sun Moral

Sun Moral is a company incorporated in Hong Kong with limited liability. It is a direct wholly-owned subsidiary of the Company and is engaged in investment holding.

Xuanzhu Biopharmaceutical

Xuanzhu Biopharmaceutical is a company incorporated in the Cayman Islands with limited liability. It is a direct wholly-owned subsidiary of Sun Moral and is engaged in provision of research and development services in Cayman Islands.

Xuanzhu Hong Kong

Xuanzhu Hong Kong is a company incorporated in Hong Kong with limited liability. It is a direct wholly-owned subsidiary of Xuanzhu Biopharmaceutical and is engaged in provision of research and development services in Hong Kong.

Investor A

Investor A is a limited partnership established in the PRC and is engaged in investment holding. The substantial shareholders (as defined under the Listing Rules) of which include Xianjin Manufacture Industry Investment Fund (Limited Partnership)* (先進製造產業投資基金(有限合夥)) (indirectly controlled by The Ministry of Finance of the PRC), SDIC, Shenzhen China Merchants China Banking Equity Investment Fund Partnership (Limited Partnership)* (深圳市招商招銀股權投資基金合夥企業(有限合夥)) (indirectly controlled by China Merchants Bank Co., Ltd., a company listed on the Stock Exchange (stock code: 3968) and China Merchants Securities Co., Ltd., a company listed on the Stock Exchange (stock code: 6099)), Beijing Shougang Fund Co., Ltd.* (北京首鋼基金有限公司) (indirectly controlled by the State-owned Assets Supervision and Administration Commission of Beijing Municipality) and Tianjin Haihe Industrial Fund Partnership (Limited Partnership)* (天津市海河產業基金合夥企業(有限合夥)) (indirectly controlled by the State-owned Assets Supervision and Administration Commission of Tianjin Municipality).

To the best knowledge of the Directors, having made reasonable enquiry, Investor A and its ultimate beneficial owners are independent of and not connected with the Company and its connected persons.

Investor B

Investor B is a limited partnership established in the PRC and is engaged in investment holding. The substantial shareholders (as defined under the Listing Rules) of which include The Ministry of Finance of the PRC, SDIC and CM Capital Holdings.

To the best knowledge of the Directors, having made reasonable enquiry, Investor B and its ultimate beneficial owners are independent of and not connected with the Company and its connected persons.

The Employee Incentive Scheme

It is expected that the participants of the Employee Incentive Scheme shall comprise the Employee Incentive Platforms and certain specified individual employees of the Target Group Companies. As at the date of this announcement, the participants to the Employee Scheme have not been finalised and the Company will comply with the relevant requirements under the Listing Rules and publish further announcement(s) as and when appropriate.

Save for the employee relationship, to the best knowledge of the Directors, having made reasonable enquiry, the Employee Incentive Platforms, their respective ultimate beneficial owners and the individual employees participating the Employee Incentive Scheme shall be independent of and not connected with the Company and its connected persons.

LISTING RULES IMPLICATIONS

Following the Completion and completion of the Employee Incentive Scheme Transfer, the Company's indirect equity interest in the Target Company will be diluted from 100% to approximately 75.76%, therefore, the Employee Incentive Scheme Transfer and the Subscription will constitute deemed disposals of the Company under Rule 14.29 of the Listing Rules. Furthermore, pursuant to Rule 14.22 of the Listing Rules, the Employee Incentive Scheme Transfer and the Subscription will be aggregated as these transactions involve the dealing in equity interests in the Target Company and will be completed within a 12-month period.

The grant of the repurchase rights to the Investors under the Shareholders Agreement would be treated as a transaction and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules.

As the highest aggregated applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Employee Incentive Scheme Transfer and the Subscription is above 5% but less than 25%, the Employee Incentive Scheme Transfer and the Subscription constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules and are therefore subject to the reporting and announcement requirements under the Listing Rules.

The exercise of the Put Option is not at the discretion of the Company. According to Rule 14.74(1) of the Listing Rules, on the grant of the Put Option, the transaction will be classified as if the Put Option had been exercised. As the highest applicable percentage ratio for the grant of the Put Option is above 5% but less than 25%, the grant of the Put Option to

the Investors constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

| | |
|--------------------------------|---|
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors |
| “CM Capital Holdings” | China Merchants Capital Holdings Co., Ltd.* (招商局資本控股有限責任公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of CM Group |
| “CM Group” | China Merchants Group Limited* (招商局集團有限公司), a leading state-owned conglomerate based in Hong Kong and under direct supervision of State-owned Assets Supervision and Administration Commission of the State Council |
| “Company” | Sihuan Pharmaceutical Holdings Group Ltd. (四環醫藥控股集團有限公司), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange |
| “Completion” | completion of the Subscription in accordance with the Subscription Agreement |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Consideration” | RMB800 million (equivalent to approximately HK\$897.2 million), being the aggregate consideration payable by the Investors to the Target Company for the Subscription pursuant to the Subscription Agreement |
| “Director(s)” | the director(s) of the Company |
| “Employee Incentive Platforms” | a total of seven entities incorporated and/or to be in the PRC with limited liability and owned by certain specified employees of the Target Group Companies |
| “Employee Incentive Scheme” | the employee incentive scheme of the Target Company to be established prior to the Completion with the Employee Incentive Platforms and certain individual employees of the Target Group Companies as participants |

| | |
|--------------------------------------|--|
| “Employee Incentive Scheme Transfer” | the transfer of 6.93% equity interests in the Target Company by Xuanzhu Hong Kong to the Employee Incentive Scheme prior to the Completion |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “independent third party(ies)” | person(s) or company(ies) and their respectively ultimate beneficial owner(s) which, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected persons |
| “Investor A” | Jingjinji Industry Synergistic Development Investment Fund (Limited Partnership)* (京津冀產業協同發展投資基金(有限合夥)), a limited partnership established in the PRC |
| “Investor B” | Xianjin Manufacture Industry Investment Fund Second Phase (Limited Partnership)* (先進製造產業投資基金二期(有限合夥)), a limited partnership established in the PRC |
| “Investors” | collectively, Investor A and Investor B |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “PRC” | the People’s Republic of China, which for the purpose of interpretation of this announcement only, except where the context requires otherwise, does not include Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Put Option” | the right of the Investors to request the Target Company or any of the Target Company’s Shareholders to repurchase all or part of their respective equity interests in the Target Company as specified in the Shareholders Agreement |
| “Qualified IPO” | an initial public offering by the Target Company and listing of its shares on a stock exchange in the PRC recognised by the parties to the Shareholders Agreement (excluding a listing on the National Equities Exchange and Quotations) |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SDIC” | SDIC Co., Ltd.* (國家開發投資集團有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the State Development and Investment Corporation |

| | |
|---------------------------------|---|
| “Share(s)” | ordinary share(s) in the issued and paid-up capital of the Company |
| “Shareholder(s)” | the holder(s) of the Share(s) |
| “Shareholders Agreement” | the shareholders agreement dated 21 August 2020 entered into among the Investors, the Target Company’s Shareholders and the Target Company in relation to the rights and obligations of the Investors and the Target Company’s Shareholders as shareholders of the Target Company upon Completion |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscription” | the subscription of approximately 13.95% and 4.65% equity interests (on a fully diluted basis) in the Target Company by Investor A and Investor B at the Consideration, respectively |
| “Subscription Agreement” | the subscription agreement dated 21 August 2020 entered into among the Investors, the Target Company’s Shareholders and the Target Company in relation to the Subscription |
| “Sun Moral” | Sun Moral International (HK) Limited (耀忠國際(香港)有限公司), a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company |
| “Target Company” | Xuanzhu (Shijiazhuang) Biopharmaceutical Technology Co., Ltd.* (軒竹(石家莊)生物科技有限公司) (formerly known as Xuanzhu (Hainan) Biopharmaceutical Co., Ltd.* (軒竹(海南)醫藥科技有限公司)), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as at the date of this announcement |
| “Target Company’s Shareholders” | collectively, Sun Moral, Xuanzhu Biopharmaceutical and Xuanzhu Hong Kong |
| “Target Group Companies” | each of the Target Company and its subsidiaries, and companies controlled by the Target Company and their subsidiaries (if any) |
| “Transaction Documents” | collectively, the Subscription Agreement, the Shareholders Agreement, the amended articles of association of the Target Company and any other documents which are necessary for the Completion of the Subscription |

| | |
|-----------------------------|---|
| “Xuanzhu Biopharmaceutical” | Xuanzhu Biopharmaceutical Ltd. (軒竹醫藥科技有限公司), a company incorporated in the Cayman Islands with limited liability and a direct wholly-owned subsidiary of Sun Moral |
| “Xuanzhu Hong Kong” | Xuanzhu (HK) Biopharmaceutical Limited (軒竹(香港)醫藥科技有限公司), a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of Xuanzhu Biopharmaceutical |
| “%” | per cent |

* *For identification purpose only*

For the purpose of illustration only and unless otherwise stated, conversion of RMB into HK\$ in this announcement is based on the exchange rate of RMB1.00 to HK\$1.1215. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

By Order of the Board
Sihuan Pharmaceutical Holdings Group Ltd.
Dr. Che Fengsheng
Chairman and Executive Director

Hong Kong, 23 August 2020

As at the date of this announcement, the executive directors of the Company are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer), Dr. Zhang Jionglong, Mr. Choi Yiau Chong and Ms. Chen Yanling; the non-executive director of the Company is Mr. Kim Jin Ha; and the independent non-executive directors of the Company are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun.