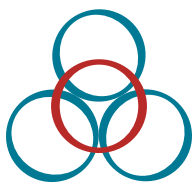


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四环医药
SihuanPharm

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 AND CONNECTED TRANSACTIONS DISPOSAL OF EQUITY INTERESTS IN TWO SUBSIDIARIES

The acquisition of 100% equity interests in the Target Companies by the Group once with a consideration of RMB46.50 million by entering into equity transfer agreements with Mr. Li on 31 January 2020. However, due to the overall changes in the pharmaceutical market environment, the impact of the COVID-19 pandemic on the active pharmaceutical ingredient industry and the impact of increasing logistic cost to raw material exports, the cost of the raw material business has increased and the profits of the Target Companies have showed a downward trend in recent years, falling short of the Company's performance expectations, and the Company expects that the downward trend may continue. Having considered and reviewed the financial data and operating conditions of the Target Companies, the Directors are of the view that the Equity Transfer will facilitate the Company to focus its management on business segments with higher growth and improve the operational efficiency of the Group. After fair negotiations between the Company and Mr. Li and Ms. Xia, the Company and Mr. Li and Ms. Xia unanimously agreed that the Seller shall enter into the Equity Transfer Agreements with Mr. Li, as well as with Mr. Li and Ms. Xia, respectively, and resell 100% equity interests in the Target Companies back to Mr. Li, as well as Mr. Li and Ms. Xia, on similar terms and at the equivalent price as those set out in the equity transfer agreement entered into between the Seller and Mr. Li on 31 January 2020, at a consideration of approximately RMB37.10 million and RMB9.40 million, respectively, amounting to a total of RMB46.50 million.

Based on (1) the Target Companies' unaudited net assets as at 31 August 2022 of approximately RMB44.416 million, and (2) the consideration of the Equity Transfer of RMB46.50 million, it is expected that the Company will record a gain of approximately RMB2.084 million from the Equity Transfer. After due and careful consideration, the Directors are of the view that the conclusion of the Equity Transfer Agreement is a reasonable choice at present and in the interests of the Company and its Shareholders as a whole, so as to reduce future operating costs and risks and improve the operational efficiency of the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Li is a director of the Seller, and the Seller is a Material Subsidiary of the Company. Mr. Li is therefore a connected person of the Company. Ms. Xia is the spouse of Mr. Li, and is therefore an associate of Mr. Li and a connected person of the Company. The transactions under the Equity Transfer Agreements constitute connected transactions of the Company according to Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, as the Equity Transfer Agreements were entered into between a Subsidiary of the Company and the same and connected person(s), the disposal shall be aggregated. As a number of applicable percentage ratios (as defined in the Listing Rules) in respect of the Equity Transfer exceed 5% but are less than 25% on a combined basis, the Equity Transfer constitutes a discloseable and connected transaction of the Company under the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, the Equity Transfer shall be subject to the reporting and announcement requirements, but is exempted from the circular, independent financial advice and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, as (1) the Purchasers are connected persons at the subsidiary level; (2) the Board has approved the Equity Transfer; and (3) the independent non-executive Directors have confirmed that the terms of the Equity Transfer are fair and reasonable and the Equity Transfer is on normal commercial terms or better and is in the interests of the Company and its Shareholders as a whole.

BACKGROUND

Reference is made to the 2020 annual report of the Company dated 30 March 2021 in relation to, among other things, the acquisition of 100% equity interests in the Target Companies by the Group with a consideration of RMB46.50 million by entering into equity transfer agreements with Mr. Li on 31 January 2020. The Target Companies are two unlisted companies located in Mainland China, specializing in technical services of chemical materials.

Due to the overall changes in the pharmaceutical market environment, the impact of the COVID-19 pandemic on the active pharmaceutical ingredient industry and the impact of increasing logistic cost to raw material exports, the cost of the raw material business has increased and the profits of the Target Companies have showed a downward trend in recent years, falling short of the Company's performance expectations, and the Company expects that the downward trend may continue.

For the financial data of the Target Companies, please refer to the following table:

The followings are certain key financial data extracted from the unaudited financial statements of the Target Companies for the years ended 31 December 2020 and 2021 and the eight months ended 31 August 2022, respectively:

(1) Value of the Target Companies' net and total assets (book value) as at 31 August 2022

	As at 31 August 2022 (RMB'000)
Lianben Technology	
Net assets	10,944
Total assets	43,770
Lianben Chemical	
Net assets	33,472
Total assets	59,976
Target Companies in total	
Net assets	44,416
Total assets	103,746

(2) Profit/(loss) (before and after tax) of the Target Companies for the years ended 31 December 2020 and 2021 and the eight months ended 31 August 2022

	For the year ended 31 December 2020 (RMB'000)	For the year ended 31 December 2021 (RMB'000)	For the eight months ended 31 August 2022 (RMB'000)
Lianben Technology			
Profit before tax	14,284	2,346	284
Profit after tax	10,593	2,186	284
Lianben Chemical			
Profit/(loss) before tax	(3,480)	2,760	(2,754)
Profit/(loss) after tax	(3,480)	2,760	(2,881)
Target Companies in total			
Profit/(loss) before tax	10,804	5,106	(2,470)
Profit/(loss) after tax	7,113	4,946	(2,597)

Reference is further made to the Announcement on Adjustment of Organizational Structure of the Company dated 16 August 2022 with respect to, among others, that the Company will focus time of its management and resources on business sectors with higher growth, and optimize and integrate the generic drug business, including gradual disposal partial of the generic drug business that does not meet performance expectations and other non-core healthcare businesses, so as to improve the operational efficiency of the Group.

Taking into account the above factors, and after fair negotiations between the Company and Mr. Li and Ms. Xia, the Company and Mr. Li and Ms. Xia unanimously agreed that the Seller shall enter into the Equity Transfer Agreements with Mr. Li, as well as with Mr. Li and Ms. Xia, respectively, and resell 100% equity interests in the Target Companies back to Mr. Li, as well as Mr. Li and Ms. Xia, on similar terms and at the equivalent price as those set out in the equity transfer agreement entered into between the Seller and Mr. Li on 31 January 2020, at a consideration of approximately RMB37.10 million and RMB9.40 million, respectively, amounting to a total of RMB46.50 million. Based on (1) the Target Companies' unaudited net assets as at 31 August 2022 of approximately RMB44.416 million, and (2) the consideration of the Equity Transfer of RMB46.50 million, it is expected that the Company will record a gain of approximately RMB2.084 million from the Equity Transfer. After due and careful consideration, the Directors are of the view that the conclusion of the Equity Transfer Agreement is a reasonable choice at present and in the interests of the Company and its Shareholders as a whole, so as to reduce future operating costs and risks and improve the operational efficiency of the Group.

EQUITY TRANSFER AGREEMENTS

The principal terms of two Equity Transfer Agreements are set out as follows:

Equity Transfer Agreement I

Date:

3 October 2022

Parties:

The Purchasers

The Seller (being a wholly-owned Subsidiary of the Company)

Underlying Equity Interests:

Pursuant to the Equity Transfer Agreement I, the Seller agreed to sell and transfer, and the Purchasers agreed to acquire 100% equity interests in Lianben Technology. Upon the Completion, the Group will cease to hold any interest in Lianben Technology and Lianben Technology will cease to be a Subsidiary of the Company, and the assets and liabilities as well as the results of Lianben Technology will cease to be consolidated into the financial statements of the Group.

Consideration:

Pursuant to the Equity Transfer Agreement I, (i) the consideration payable by the Purchasers is approximately RMB9.40 million; and (ii) within 30 days after the effective date of the Equity Transfer Agreement I, the Seller shall be responsible for all business registration and filing of the Equity Transfer documents. As the Seller has not actually paid the consideration for the acquisition of the Target Companies on 31 January 2020, the consideration receivable under the Equity Transfer will offset against the unpaid consideration due from the Seller. All taxes and fees arising from the Equity Transfer shall be borne by the Purchasers and the Seller in corresponding proportion as required by laws. The consideration, being the same as the price paid by the Group for the acquisition of the Target Companies on 31 January 2020, is determined between the Group and the Purchasers upon fair negotiation.

The Directors believe that the consideration is determined based on the arm's length negotiations, which is fair and reasonable and on normal commercial terms, and therefore, the entering into of the Equity Transfer Agreement I and the proposed transactions thereof are in the interests of the Company and its Shareholders as a whole.

Equity Transfer Agreement II

Date:

3 October 2022

Parties:

Mr. Li

The Seller (being a wholly-owned Subsidiary of the Company)

Underlying Equity Interests:

Pursuant to the Equity Transfer Agreement II, the Seller agreed to sell and transfer, and Mr. Li agreed to acquire 100% equity interests in Lianben Chemical. Upon the Completion, the Group will cease to hold any interest in Lianben Chemical and Lianben Chemical will cease to be a Subsidiary of the Company, and the assets and liabilities as well as the results of Lianben Chemical will cease to be consolidated into the financial statements of the Group.

Consideration:

Pursuant to the Equity Transfer Agreement II, (i) the consideration payable by Mr. Li is approximately RMB37.10 million; and (ii) within 30 days after the effective date of the Equity Transfer Agreement II, the Seller shall be responsible for all business registration and filing of the Equity Transfer documents. As the Seller has not actually paid the consideration for the acquisition of the Target Companies on 31 January 2020, the consideration receivable under the Equity Transfer will offset against the unpaid consideration due from the Seller. All taxes and fees arising from the Equity Transfer shall be borne by Mr. Li and the Seller in corresponding proportion

as required by laws. The consideration, being the same as the price paid by the Group for the acquisition of the Target Companies on 31 January 2020, is determined between the Group and Mr. Li upon fair negotiation.

The Directors believe that the consideration is determined based on the arm's length negotiations, which is fair and reasonable and on normal commercial terms, and therefore, the entering into of the Equity Transfer Agreement II and the proposed transactions thereof are in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECT OF THE EQUITY TRANSFER

Based on (1) the Target Companies' unaudited net assets as at 31 August 2022 of approximately RMB44.416 million; and (2) the consideration of the Equity Transfer of RMB46.50 million, it is expected that the Company will record a gain of approximately RMB2.084 million from the Equity Transfer. The calculation is for reference only and is subject to the audited annual financial statements of the Company.

USE OF PROCEEDS OF THE EQUITY TRANSFER

As at the date of this announcement, the Group has not yet paid the consideration for the acquisition of the Target Companies on 31 January 2020, and therefore, the consideration receivable by the Group under the Equity Transfer will offset against the unpaid consideration due from the Group.

REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER

As disclosed by the Company in this announcement, due to the overall changes in the pharmaceutical market environment, the impact of the COVID-19 pandemic on the active pharmaceutical ingredient industry and the impact of the increasing logistic costs to raw material exports, the cost of the raw material business has increased and the profits of the Target Companies have showed a downward trend in recent years, falling short of the Company's performance expectations, and the Company expects that the downward trend may continue. Having considered and reviewed the financial data and operating conditions of the Target Companies, the Directors are of the view that the Equity Transfer will facilitate the Company to focus its management on business segments with higher growth and improve the operational efficiency of the Group.

DIRECTORS' CONFIRMATION ON THE EQUITY TRANSFER

The Directors (including the independent non-executive Directors) have reviewed the Equity Transfer and are of the view that the Equity Transfer is on normal commercial terms, is fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Equity Transfer has been approved by the Board, and none of the Directors has, or is deemed to have, a material interest in the transactions contemplated under the Equity Transfer Agreements.

INFORMATION ABOUT THE TARGET COMPANIES, THE PURCHASERS, THE SELLER AND THE COMPANY

Information about the Target Companies

The Target Companies are Lianben Technology and Lianben Chemical, both of which are companies established in the PRC with limited liabilities and indirect wholly-owned Subsidiaries of the Company as at the date of this announcement. The main business of Lianben Technology is marketing and sales of pharmaceutical products in Mainland China, and the main business of Lianben Chemical is providing research and development services in Mainland China.

Information about the Purchasers

The Purchasers are Mr. Li and Ms. Xia. Mr. Li is a director of the Seller. As at the date of this announcement, the Seller is a Material Subsidiary of the Company. Therefore, Mr. Li will become a connected person of the Company at the subsidiary level due to his position as a director of the Seller according to Chapter 14A of the Listing Rules. Ms. Xia is the spouse of Mr. Li, and is therefore an associate of Mr. Li and a connected person of the Company.

Information about the Seller

The Seller is Jilin Shengtong Chemical Co., Ltd., 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, the principal business of which is the manufacture of pharmaceutical products in Mainland China.

Information about the Company

Founded in 2001 and listed on the Main Board of the Stock Exchange in 2010, Sihuan Pharmaceutical is an international medical aesthetic and biopharmaceutical company led and driven by innovation, with an independent and leading R&D technology platform, a rich global product pipeline, strong product registration capability, a full dosage form production platform with high efficiency and low cost and a mature and excellent sales system. Adhering to the overall strategic objective of “full promotion of a two-wheel drive strategy of its medical aesthetics and biopharmaceutical businesses”, Sihuan Pharmaceutical endeavours to build itself into a leading medical aesthetics and biopharmaceutical company in China.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Li is a director of the Seller, and the Seller is a Material Subsidiary of the Company. Mr. Li is therefore a connected person of the Company. Ms. Xia is the spouse of Mr. Li, and is therefore an associate of Mr. Li and a connected person of the Company. The transactions under the Equity Transfer Agreements constitute connected transactions of the Company according to Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, as the Equity Transfer Agreements were entered into between a Subsidiary of the Company and the same and connected person(s), the disposal shall be aggregated. As a number of applicable percentage ratios (as defined in the Listing Rules) in respect of the Equity Transfer exceed 5% but are less than 25% on a combined basis, the Equity Transfer constitutes a discloseable and connected transaction of the Company under the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, the Equity Transfer shall be subject to the reporting and announcement requirements, but is exempted from the circular, independent financial advice and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, as (1) the Purchasers are connected persons at the subsidiary level; (2) the Board has approved the Equity Transfer; and (3) the independent non-executive Directors have confirmed that the terms of the Equity Transfer are fair and reasonable and the Equity Transfer is on normal commercial terms or better and is in the interests of the Company and its Shareholders as a whole.

DEFINITIONS

“Board”	the board of Directors
“Company” or “Sihuan Pharmaceutical”	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 Equity Transfer
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Equity Transfer”	Acquisition of 100% equity of Lianben Technology and Lianben Chemical, respectively, by the Purchasers at considerations
“Equity Transfer Agreement(s)”	Equity Transfer Agreement I and Equity Transfer Agreement II
“Equity Transfer Agreement I”	Equity Transfer Agreement entered into by the Seller and the Purchasers on 3 October 2022 in respect of the transfer of 100% equity interests of Lianben Technology

“Equity Transfer Agreement II”	Equity Transfer Agreement entered into by the Seller and Mr. Li on 3 October 2022 in respect of the transfer of 100% equity interests of Lianben Chemical
“Group”	the Company and its Subsidiaries
“Lianben Chemical”	Beijing Lianben Pharm-chemicals Tech. Co., Ltd., 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
“Lianben Technology”	Beijing Lianben Technology Development Co., Ltd., 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
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Material Subsidiary”	Subsidiary of the Company that is not an “insignificant subsidiary” (as defined in Rule 14A.09 of the Listing Rules) of the Company
“Mr. Li”	Mr. Li Gongben (李攻本)
“Ms. Xia”	Ms. Xia Zhihua (夏志華)
“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
“Purchasers”	Mr. Li Gongben and Ms. Xia Zhihua
“RMB”	Renminbi, the legal currency of the PRC
“Seller”	Jilin Shengtong Chemical Co., Ltd., 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
“Shareholder(s)”	holder(s) of shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Target Companies”	Lianben Technology and Lianben Chemical
“%”	per cent

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

Hong Kong, 3 October 2022

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; and the independent non-executive directors of the Company are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun.