Fusen Pharmaceutical Company Limited
福森藥業有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1652)

MAJOR TRANSACTION IN RELATION TO DEEMED DISPOSAL OF EQUITY INTEREST IN HENAN FUSEN PHARMACEUTICAL COMPANY LIMITED

THE CAPITAL INCREASE

On 18 June 2026, the Investors, Nanyang Hengsheng, Wealth Depot (HK) and the Target Company entered into the Capital Increase Agreement, pursuant to which the Investors shall make an aggregate cash contribution of RMB300 million to subscribe for the Target Company's newly increased registered capital, representing approximately 34% of the enlarged total registered capital of the Target Company after the Capital Increase. Upon completion of the Capital Increase, the Company will indirectly hold approximately 66% of the enlarged total registered capital of the Target Company, and the Target Company will remain a subsidiary of the Company.

LISTING RULES IMPLICATIONS

The Capital Increase will constitute a deemed disposal of the equity interest in the Target Company held by the Company under Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Capital Increase exceed 25% but all such percentage ratios are less than 75%, the Capital Increase constitutes a major transaction of the Company and are therefore subject to the notification, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors has a material interest in the Capital Increase and hence no Director is required to abstain from voting on the relevant resolution(s) of the Board approving the Capital Increase Agreement and the transactions contemplated thereunder.

EGM

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Capital Increase Agreement and the transactions contemplated thereunder.

The voting in respect of the Capital Increase Agreement at the EGM will be conducted by way of poll. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder or any of their associates has any material interest in the Capital Increase Agreement and the transactions contemplated thereunder, and will be required to abstain from voting on the relevant resolution(s) to approve the Capital Increase Agreement and the transactions contemplated thereunder at the EGM.

A circular containing, among other things, details of the Capital Increase, letter from the Board, the Valuation Report and such other information as required under the Listing Rules; and a notice of the EGM, is expected to be despatched to the Shareholders on 23 June 2026.

1. THE CAPITAL INCREASE

On 18 June 2026, the Investors, Nanyang Hengsheng, Wealth Depot (HK) and the Target Company entered into the Capital Increase Agreement, pursuant to which the Investors shall make an aggregate cash contribution of RMB300 million to subscribe for the Target Company's newly increased registered capital, representing approximately 34% of the enlarged total registered capital of the Target Company after the Capital Increase. Upon completion of the Capital Increase, the Company will indirectly hold approximately 66% of the enlarged total registered capital of the Target Company, and the Target Company will remain a subsidiary of the Company.

The principal terms of the Capital Increase Agreement are set out below:

Date

18 June 2026

Parties

(a) Investors: (i) Nanyang Industrial Investment; and

(ii) Henan Xisheng,

details of which are set out in the paragraph headed "2. GENERAL INFORMATION OF THE PARTIES" of this announcement.

(b) Nanyang Hengsheng and Wealth Depot (HK), which are the wholly-owned subsidiaries of the Company and the existing shareholders of Henan Fusen

(c) Henan Fusen, which is the Target Company

To the best of the Directors' knowledge, information and belief, and after having made all reasonable enquiries, the parties to the Capital Increase Agreement and their ultimate beneficial owners are Independent Third Parties.

The Capital Increase

The Investors will subscribe for the Target Company's newly increased registered capital of RMB39,542,927 with an aggregate cash consideration of RMB300 million, representing approximately 34% of the enlarged registered capital of the Target Company after the Capital Increase. The amount of registered capital to be subscribed by each Investor (and the corresponding portion of its cash contribution to be credited to the capital reserve (capital surplus) of the Target Company) was determined on the basis of the parties' agreed post-Capital Increase shareholding structure, under which the Investors (in aggregate) will hold approximately 34% of the enlarged registered capital of the Target Company (and the Existing Shareholders will hold approximately 66%), with the Investors' cash contributions allocated between registered capital and capital reserve in accordance with PRC law and the Target Company's constitutional documents. Accordingly, the Target Company's registered capital will be increased from RMB76,759,800 to RMB116,302,727, and the Investors will in aggregate subscribe for newly increased registered capital of RMB39,542,927 (i.e. approximately 34% of the enlarged registered capital). The portion of each Investor's cash contribution in excess of the registered capital amount to be subscribed by it will be credited to the capital reserve (capital surplus) of the Target Company. For the purpose of allocating the newly increased registered capital among the Investors, the parties agreed to allocate such registered capital pro rata to the Investors' respective cash contributions (i.e. RMB280 million: RMB20 million), with any rounding differences (if any) adjusted among the Investors so that the aggregate newly increased registered capital subscribed by the Investors equals RMB39,542,927 and the intended post-Capital Increase shareholding percentages are achieved. Upon completion of the Capital Increase, (i) Nanyang Industrial Investment will contribute RMB280 million, of which RMB36,906,732 will be credited as registered capital and RMB243,093,268 will be credited to the capital reserve of the Target Company, and it will hold approximately 31.73% of the enlarged registered capital of the Target Company; and (ii) Henan Xisheng will contribute RMB20 million, of which RMB2,636,195 will be credited as registered capital and RMB17,363,805 will be credited to the capital reserve of the Target Company, and it will hold approximately 2.27% of the enlarged registered capital of the Target Company.

The following table sets out, for illustrative purposes, (i) each Investor's cash contribution, (ii) the portion of such cash contribution credited as registered capital and the portion credited to the capital reserve (capital surplus) of the Target Company, and (iii) the resulting shareholding percentages (by reference to registered capital) immediately after completion of the Capital Increase:

Party	**Cash contribution** *(RMB)*	**Registered capital** *(RMB)*	**Capital reserve/ premium credited** *(RMB)*	**Shareholding (by registered capital)** *(Approx. %)*
Nanyang Hengsheng	—	70,880,000	0	60.94%
Wealth Depot (HK)	—	5,879,800	0	5.06%
Nanyang Industrial Investment	280,000,000	36,906,732	243,093,268	31.73%
Henan Xisheng	20,000,000	2,636,195	17,363,805	2.27%
Total	300,000,000	116,302,727	260,457,073	100.00%

Consideration and Payment Arrangement

The total amount of the Capital Increase is RMB300 million (the "**Capital Increase Price**"). Within five (5) Business Days after all the conditions precedent specified in the Capital Increase Agreement are satisfied or waived by the Investors and the Payment Notice (as hereinafter defined) being issued to the Investors, each of the Investors shall pay the entire Capital Increase Price in a single installment to the capital increase account (the "**Fund Account**") opened and designated by the Target Company. The date on which the Investors pay the full Capital Increase Price to the Fund Account shall be the payment date of the Capital Increase Price (the "**Capital Increase Price Payment Date**").

Basis for Consideration

The Capital Increase Price was determined and agreed after arm's length negotiations between the parties and represents the parties' assessment of the value of the Target Company taking into account the following:

(i) The appraised market value of the entire shareholders' equity interest of the Target Company as at 31 December 2025 (i.e. the valuation benchmark date) as stated in the valuation report (the "**Valuation Report**") prepared by Beijing China Enterprise Appraisals Co., Ltd.* (北京中企華資產評估有限責任公司) (the "**Independent Valuer**"), an independent valuer, using the market approach, pursuant to which the value of the entire shareholders' equity interest of the Target Company was appraised at approximately RMB724.6 million (subject to the assumptions and limitations therein).

    The Board has reviewed the Valuation Report, discussed the valuation methodology, key inputs, assumptions, and limitations with the Independent Valuer, and assessed the fairness and reasonableness of the valuation. Please refer to the paragraph headed "Summary of the Valuation Report" of this announcement and the full text of the Valuation Report which will be set out in the circular for further details. The Board's detailed assessment is as follows:

(a) The Board concurs with the Independent Valuer's decision to reject the asset-based approach, as it fundamentally fails to capture the intrinsic value of the Target Company's vital off-balance-sheet intangible assets. The Board also considers the adoption of the market approach utilizing the P/B ratio to be highly appropriate. Given the regulatory uncertainties in the PRC pharmaceutical sector regarding future volume-based procurement renewals, forecasting long-term cash flows under the income approach involves significant subjective risk. Utilizing a P/B multiple anchors the valuation on the solid, verifiable net asset base of the Target Company while applying a market-tested premium from comparable public companies, providing a more reliable, stable, and objective benchmark;

(b) The Board has reviewed the key assumptions, particularly regarding the continuity of the high-tech enterprise tax rate and the successful renewal of drug approvals and procurement contracts. The Board considers these assumptions to be fair, commercially reasonable, customary for a going-concern pharmaceutical business, and closely aligned with the historical compliance record and management's operational expectations for the Target Company; and

(c) The appraised market value of approximately RMB724.6 million represents a modest premium of 6.34% over the Target Company's equity attributable to the owners of the company (audited) of approximately RMB681.4 million as at the valuation benchmark date, as shown in the financial statements audited by Henan Zhongjianhua Certified Public Accountants Co., Ltd.* (河南中建華會計師事務所有限公司), an independent auditor, with an unqualified opinion. The Board noted the limitations regarding pending property certificates and insignificant investments, and considers that they do not materially impair the overall fairness of the valuation. Accordingly, the Board is of the view that the valuation, having been determined based on the market approach and reflecting the appraised market value of the Target Company, as well as the assumptions adopted therein, is fair, reasonable, and appropriate, and provides a reliable basis for determining the Capital Increase Price;

(ii) The latest available financial information of the Target Company, including its audited financial results for the year ended 31 December 2025;

(iii) The Target Company's capital structure, existing indebtedness and liquidity position; in particular, the Board reviewed, among others, (a) the Target Company's latest balance sheet and working capital position, (b) the level and maturity profile of its existing borrowings and other indebtedness, and (c) its projected funding needs for debt repayment and working capital (details of which are set out in the paragraph headed "Use of Proceeds from the Capital Contribution" of this announcement below), and considered that the Capital Increase would strengthen the Target Company's liquidity position and optimise its capital structure. In agreeing the Capital Increase Price, the Board also took into account that, under PRC law and in order to achieve the agreed post-Capital Increase shareholding structure, the Investors' cash contributions would be allocated between registered capital and capital reserve, and that the Capital Increase Price therefore reflects an agreed post-money equity value of the Target Company (details of which are set out in the paragraph headed "The Capital Increase" of this announcement above);

(iv) The expected impact of the Capital Increase and the proposed application of proceeds (including repayment of certain indebtedness and replenishment of working capital); and

(v) Prevailing market practice for structured capital injections into PRC operating subsidiaries, together with the specific rights and obligations of the parties under the Capital Increase Agreement; in particular, the Board considered that structured capital injections involving PRC state-owned or institutional investors commonly (a) adopt an asset/NAV-referenced pricing approach (or a market approach utilizing Price-to-Book multiples) for asset-heavy operating subsidiaries or where the proceeds are primarily applied towards debt reduction and financing capital expenditure, (b) include customary investor protection arrangements (such as reserved matters, information and governance rights and agreed exit mechanisms), and (c) allocate subscription proceeds partly to registered capital and partly to capital reserve to achieve the agreed post-money ownership. The Board considered that the Capital Increase Price and structure are consistent with such market practice.

Taking into account the factors set out above, and specifically by reference to the Investors' cash contribution of RMB300.0 million for approximately 34% of the enlarged registered capital of the Target Company, the implied post-money equity value of the Target Company is approximately RMB882.4 million (calculated as RMB300.0 million divided by 34%), which results in a negotiated pre-money equity value of approximately RMB582.4 million (after deducting the cash contribution). This negotiated pre-money valuation represents a discount of approximately 19.6% to the appraised market value of approximately RMB724.6 million as stated in the Valuation Report. The Board considers that such discount, which was arrived at after arm's length negotiations, is commercially justifiable and fair and reasonable taking into account the following practical factors: (i) the immediate and substantial liquidity of RMB300.0 million injected into the Target Company as a single lump sum, which is crucial for alleviating the Group's short-term funding pressures (including its net current liabilities position) and securing sufficient working capital to meet the Group's operational requirements; (ii) the fact that the Investors are acquiring a minority interest in a non-listed PRC operating subsidiary with limited liquidity, and the Capital Increase Agreement does not provide the Investors with an unconditional or guaranteed liquidity exit (for example, the exit mechanisms contemplated include transfers (which are subject to negotiation/third-party availability) and targeted capital reduction which requires unanimous agreement and completion of statutory procedures), such that the Investors bear a degree of liquidity and exit uncertainty during the investment period (for details of the said exit mechanism, please refer to the paragraph headed "Exit Arrangements" of this announcement below); (iii) the Board also took into account the

Investors' PRC state-owned backgrounds and the strategic and practical value that a state-owned institutional shareholder base may bring to the Target Company in the ordinary course of business. In particular, the Board considered that (a) the introduction of state-owned institutional investors as minority shareholders may enhance the Target Company's standing and credibility with key counterparties (including banks, suppliers and business partners) when the Target Company seeks to maintain stable financing arrangements, negotiate financing terms or procure operational support; (b) state-owned institutional investors typically adopt a relatively longer-term investment outlook and more disciplined post-investment monitoring and oversight, which may support the Target Company's efforts to strengthen corporate governance, internal controls and financial discipline (particularly in relation to prudent debt management and maintaining a healthy debt-to-asset ratio) and thereby reduce financing and liquidity risks; and (c) given the Investors' respective state-owned institutional profiles, the Target Company may, subject to commercial needs and applicable procedures, have opportunities to access broader financing channels or resource coordination (for example, introductions to financial institutions and facilitation of discussions on credit facilities or refinancing arrangements), which the Board considered to be relevant in assessing the overall commercial rationale of the transaction and the reasonableness of the Capital Increase Price (including the agreed discount); and (iv) the recent financial performance of the Target Company, which recorded net losses in the financial year ended 31 December 2025. Accordingly, the Board (including the independent non-executive Directors) is of the view that the terms of the Capital Increase Agreement and the transactions contemplated thereunder (including the Capital Increase Price) are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Summary of the Valuation Report

In accordance with the requirements of HKEX Guidance Letter HKEX-GL116–23, details of the Valuation Report are summarised below. The full text of the Valuation Report will be set out in the circular for further information.

(i) *Identity, Qualification and Independence of the Valuer:* The Valuation Report was prepared by the Independent Valuer, a qualified professional asset appraisal institution in the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Independent Valuer and its ultimate beneficial owners are Independent Third Parties.

(ii) *Valuation Approach and Methods Selected:* In preparing the Valuation Report, the Independent Valuer considered the income approach, the market approach, and the asset-based approach. The asset-based approach was not adopted because the Target Company is a pharmaceutical manufacturing enterprise whose enterprise value is reflected not only in its on-balance-sheet tangible assets, but more significantly in the value of off-balance-sheet intangible assets such as its 72 drug approval numbers, production qualifications, brands, sales channels, technical processes, and management teams, which the asset-based approach cannot adequately capture.

The Independent Valuer applied both the income approach and the market approach, but ultimately adopted the market approach (specifically, the guideline public company method) as the final valuation conclusion over the income approach. The rationale is that the income approach relies heavily on forecasts of future revenue and costs, which involve a high degree of uncertainty given that the pharmaceutical industry is facing policy pressures such as the normalization of centralized procurement and medical insurance cost control. The procurement cycle for the Target Company's core products terminates on 31 December 2027, creating material uncertainties for future re-bidding. Conversely, the market approach objectively reflects the enterprise's market value under the current capital market environment and effectively avoids potential valuation deviations caused by subjective future forecasts and short-term policy changes.

(iii) *Key Inputs and Selection Criteria for Market Comparables:* Under the market approach, the Price-to-Book (P/B) ratio was selected as the primary value multiple. Given that the Target Company operates in a traditional, asset-intensive pharmaceutical manufacturing industry, there is a strong positive correlation between asset scale and enterprise value. Utilizing the P/B ratio (with net assets as the denominator) effectively mitigates valuation distortions that could be caused by differences in capitalization and expensing of R&D investments, amortization policies for intangible assets, and short-term profit fluctuations among peers.

The comparable listed companies were selected based on the following criteria: (1) A-share listed companies classified under the traditional Chinese medicine sub-sector; (2) principal business comprising the research and development, production and sale of Chinese patent medicines and related products, with pharmaceutical operations accounting for more than 50% of the total business; (3) establishment for at least three years with obtainable publicly available financial data for the recent three years and stable operating history; and (4) comparability with the Target Company in terms of business model, company scale, growth potential and risk characteristics. The Independent Valuer also considered whether the comparable companies were comparable to the Target Company in terms of operating stage, growth profile, operating risk and financial risk. Based on the Independent Valuer's screening of all A-share listed companies satisfying the above criteria, the selected comparable companies represent an exhaustive and representative set of comparable companies. Based on the above criteria, Tailong Pharmaceutical (600222.SH) ("**Tailong**"), Zhenbaodao (603567.SH) ("**Zhenbaodao**") and Panlong Pharmaceutical (002864.SZ) ("**Panlong**") were selected as comparable companies.

The Independent Valuer initially identified five listed companies in the pharmaceutical manufacturing industry through the WIND Industry Center. Two companies were excluded from the final comparable set: one was excluded because it had undergone a back-door listing transaction, which materially affected its share price and historical financial information and therefore distorted comparability; and the other was excluded because, although classified under "pharmaceutical manufacturing" in the WIND system, its principal business had materially shifted according to its 2025 annual report and was no longer sufficiently comparable to the Target Company's product structure, which focuses on Chinese medicine preparations and chemical generic drugs. The Independent Valuer considered that including these two companies would reduce the reliability of the P/B multiples and adjustment coefficients.

The P/B ratios of the comparable companies were derived based on the arithmetic mean of their daily weighted average share prices over the 20 trading days immediately preceding the valuation benchmark date divided by their respective net assets per share. The Independent Valuer adopted the 20-trading-day period as it is commonly used in the domestic capital market to represent a recent average trading price. The Independent Valuer considered that such period is sufficiently long to smooth abnormal short-term fluctuations caused by individual trading days, while not being so long as to dilute recent market information. For each trading day, the daily weighted average price was calculated by dividing the total trading turnover for that day by the total number of shares traded for that day, and the arithmetic mean of the daily weighted average prices for the 20 trading days immediately preceding the valuation benchmark date was then adopted. The observed P/B ratios were 2.38 (Tailong), 1.53 (Zhenbaodao) and 2.65 (Panlong).

For the purpose of calculating the P/B ratios on a comparable basis, the Independent Valuer did not adjust the share prices of the comparable companies themselves. Instead, adjustments were made in the calculation of the P/B ratios to exclude the impact of non-operating assets and surplus assets of the comparable companies, so as to align the calculation basis of the comparable companies with that of the Target Company. In this connection, the adjusted market capitalisation and adjusted net assets of the comparable companies were used to calculate the adjusted average share price and net assets per share.

Adjustments were made to reflect differences between the Target Company and the comparable companies across five factors, namely assets under management, profitability, growth capability, risk management capability and operating ratio. Assets under management mainly include indicators such as total assets and net assets attributable to the parent company; profitability mainly includes indicators such as net profit margin, gross profit margin, return on total assets, return on equity, net profit and revenue; growth capability mainly includes indicators such as compound growth rates of revenue, total assets and gross profit margin; risk management capability mainly includes indicators such as debt-to-asset ratio, equity multiplier, financial leverage ratio, current ratio, quick ratio and equity ratio; and operating ratio mainly includes indicators such as total asset turnover, accounts receivable turnover, inventory turnover and current asset turnover.

Each sub-indicator was compared using the Target Company as the benchmark. Where the relevant indicator of a comparable company was inferior to that of the Target Company, the adjustment coefficient was below 100; where the relevant indicator was superior to that of the Target Company, the adjustment coefficient was above 100. For example, for the adjustment of assets under management, larger total assets and net assets attributable to the parent company were considered to indicate stronger risk resilience, and the two sub-indicators were each assigned a 50% weighting. After applying the relevant weighted adjustment, the adjustment coefficients for assets under management were 101 for Tailong, 105 for

Zhenbaodao and 101 for Panlong. The adjustment direction and methodology for the other adjustment factors were determined on a similar basis, having regard to objective quantitative indicators and the Independent Valuer's industry experience.

Adjustment coefficients of 0.9611, 0.8979 and 0.8884 were applied to Tailong, Zhenbaodao and Panlong, respectively, resulting in adjusted P/B ratios of 2.28, 1.38 and 2.36. The P/B ratio of the Target Company, based on the weighted average of the adjusted results of the three comparable companies, was 2.01.

A discount rate, for lack of marketability for the pharmaceutical manufacturing industry to which the Target Company belongs, of 37.3% was applied with reference to empirical data on M&A transactions in the PRC capital market for 2025 (sourced from Property Rights Exchange, CVSource and Wind Information).

For the purpose of the market approach calculation, non-operating assets refer to assets that are not directly related to the Target Company's principal business of production and sale of pharmaceuticals and do not contribute to the operating cash flows of the Target Company, such as non-operating related-party balances, external investments, construction and equipment payments, borrowings, idle land and equipment. Surplus assets refer to assets in excess of those required for the normal operations of the Target Company, such as excess cash and external investments.

As at the valuation benchmark date, the Target Company's non-operating assets primarily comprised prepayments for construction and equipment, internal related-party balances and borrowings recorded under other receivables, certain equity investments, and idle land at the Nanyang headquarters with an appraised value of approximately RMB92.5 million. The total amount of non-operating assets was approximately RMB730.2 million. The Target Company's non-operating liabilities primarily comprised construction and equipment payables and internal related-party balances and borrowings recorded under other payables. The total amount of non-operating liabilities was approximately RMB284.8 million. Accordingly, the net value of non-operating assets and non-operating liabilities was approximately RMB445.4 million.

The surplus assets mainly comprised the portion of the Target Company's monetary funds as at the valuation benchmark date which exceeded its minimum cash holding requirement. Based on the Independent Valuer's calculation, the Target Company's monetary funds as at the valuation benchmark date amounted to approximately RMB80.9 million, its minimum cash holding requirement amounted to approximately RMB22.1 million, and the excess cash amounted to approximately RMB58.8 million. The minimum cash holding requirement was determined by reference to the Target Company's monthly cash operating costs and cash turnover period, excluding depreciation and amortisation. In addition, the appraised value of long-term equity investments assessed separately amounted to approximately RMB11.1 million. Accordingly, the total amount of surplus assets was approximately RMB69.9 million.

The value of the entire shareholders' equity interest of the Target Company was appraised at approximately RMB724.6 million (subject to the assumptions and limitations in the Valuation Report), by applying the following formula:

adjusted net assets of the Target Company×P/B of the Target Company x (1 – liquidity discount) + net value of non-operating assets + surplus assets = (681,378,844.22 – 445,418,640.66 – 69,948,397.44) x 2.01 x (1 – 37.3%) + 445,418,640.66 + 69,948,397.44 = RMB724,586,737.00

(iv) *Key Assumptions:* The valuation was based on general assumptions (such as going concern and stable macroeconomic environments) and key specific assumptions, including: (1) the Target Company will successfully pass its high-tech enterprise re-assessment upon expiry and continue to enjoy the 15% preferential enterprise income tax rate; (2) the 72 drug approval numbers owned by the Target Company can be successfully renewed upon the expiry of their validity periods; and (3) the Target Company's products that have been selected for the national and provincial centralized procurement lists can be successfully re-selected upon the expiry of the relevant procurement periods.

In relation to the income tax rate assumption, based on the Independent Valuer's on-site verification, the Target Company had been recognised as a high-tech enterprise multiple times and obtained its latest high-tech enterprise qualification in October 2024 for a term of three years, which remained valid as at the valuation benchmark date. Accordingly, for the purpose of the valuation, the Independent Valuer assumed that there would be no material change to the relevant tax policy applicable to the Target Company and that the Target Company would be able to pass the high-tech enterprise reassessment upon expiry of the current recognition period and continue to enjoy the preferential enterprise income tax rate of 15%.

(v) *Scope of Work, Limitations and Information Relied Upon:* The valuation scope covered all assets and liabilities of the Target Company. The valuation relied on the Target Company's audited financial statements for the year ended 31 December 2025, asset lists, site inspection records, and property ownership certificates. The valuation is subject to certain limitations, including: (1) certain buildings and land use rights are subject to mortgages; (2) property ownership certificates for certain buildings have not yet been obtained, though the Target Company has provided written ownership undertakings; and (3) two equity investments were valued at their audited book values due to the Target Company's relatively low shareholding ratio or the investee not having commenced substantive operations, resulting in the unavailability of complete operating data.

Conditions Precedent

Before the Capital Increase Price Payment Date, certain conditions precedent specified in the Capital Increase Agreement shall be fulfilled (or if applicable, waived by the Investors), and the Target Company, Nanyang Hengsheng and Wealth Depot (HK) shall have provided the Investors with written confirmation letters signed by their respective legal representatives or authorized representatives and affixed with their respective official seals confirming the fulfilment of all conditions precedent as well as relevant supporting documents, and the Target Company shall have issued to the Investors a payment notice (the "**Payment Notice**") for the Capital Increase, affixed with its official seal. Such conditions precedent include the following:

(i) the Capital Increase Agreement and the transactions contemplated thereunder have been approved by the shareholders of the Company in its general meeting in accordance with the Listing Rules;

(ii) the transaction documents relating to the Capital Increase have been duly signed and become effective; and from the date of entering into the Capital Increase Agreement up to the Capital Increase Price Payment Date, neither the Target Company nor Nanyang Hengsheng and Wealth Depot (HK) has committed any default, or, if any default has occurred, it has been remedied to the Investors' satisfaction or waived by the Investors;

(iii) the respective subscribed capital contributions of Nanyang Hengsheng and Wealth Depot (HK) to the Target Company in the aggregate amount of approximately RMB76.8 million has been fully paid up, duly registered with the relevant authorities, and are free from any withdrawal and/or falsification;

(iv) the Target Company has obtained the respective valid board and shareholders' approval in compliance with the Company Law of the PRC and its articles of association for the approval of the Capital Increase Agreement (including the Capital Increase), the use of capital contribution and the waiver of pre-emptive subscription rights and any other preferential rights (if any) by Nanyang Hengsheng and Wealth Depot (HK) in relation to the Capital Increase;

(v) except for matters disclosed in writing to the Investors, the representations and warranties of the Target Company, Nanyang Hengsheng and Wealth Depot (HK) as set out in the Capital Increase Agreement shall be and remain to be, as at the date of entering into the Capital Increase Agreement and the Capital Increase Price Payment Date, true, accurate, complete and not misleading in all material respects; the Target Company, Nanyang Hengsheng and Wealth Depot (HK) have duly performed all their respective obligations that are required to be performed prior to the Capital Increase Price Payment Date;

(vi) no material adverse change has occurred in respect of the business operations, financial condition or assets of the Target Company, Nanyang Hengsheng and/or Wealth Depot (HK) since the date of entering into the Capital Increase Agreement, nor any event reasonably expected to cause a material adverse effect to the group has occurred;

(vii) there is no potential, ongoing, pending or reasonably foreseeable material litigation, arbitration, administrative penalties or asset preservation measures against the group's core assets;

(viii) the Investors have engaged a qualified valuer approved by the Target Company which, completed asset valuation of the Target Company to the satisfaction of the Investors and the Target Company, and completed and obtained all necessary approvals or filings in accordance with the state-owned assets supervision requirements;

(ix) the Target Company, Nanyang Hengsheng and Wealth Depot (HK) have obtained all required internal and external registration, filings, license, consents, authorisations or approval for the Capital Increase; and

(x) there are no any administrative, judicial or arbitral actions or proceedings exist that would restrict, prohibit, delay or obstruct completion of the Capital Increase, nor are there any circumstances that may render it incapable of being performed, unlawful, voidable or materially adverse to any party to the Capital Increase Agreement.

Except for conditions precedent set out in paragraphs (ii), (v), (vi) and (vii) which can be waived by the Investors, the other conditions precedent are not waivable. As at the date of this announcement, other than the condition precedent set out in paragraph (viii) which has been fulfilled, none of the conditions precedent set out in the Capital Increase Agreement have been fulfilled (or if applicable, waived by the Investors).

Unless the Investors agree with the Target Company and the Existing Shareholders to extend the time for fulfillment of any of the conditions precedent set out in the Capital Increase Agreement (or if applicable, waived by the Investors), if any of such conditions precedent have not been fulfilled within 45 days from the date of entering into the Capital Increase Agreement, the Investors shall have the right to terminate the Capital Increase Agreement by written notice.

Completion

Completion shall take place on the Capital Increase Price Payment Date. From the Capital Increase Price Payment Date, each of the Investors will become a shareholder of the Target Company, and shall, by virtue of its shareholdings in the Target Company, enjoy shareholders' rights and undertake shareholders' obligations. The Target Company, Nanyang Hengsheng and Wealth Depot (HK), with the Investors providing all necessary assistance, shall complete the application documents for commercial registration amendments in relation to the Capital Increase and submit the application for the commercial registration amendments within 30 days after the Capital Increase Price Payment Date, and complete the commercial registration amendments in relation to the Capital Increase.

Following the completion of the Capital Increase, the shareholding structure of the Target Company is as follows:

Shareholders Name	**Shareholding Percentage** *(Approx.)*
Nanyang Hengsheng	60.94%
Wealth Depot (HK)	5.06%
Nanyang Industrial Investment	31.73%
Henan Xisheng	2.27%
Total	**100%**

Before and upon completion of the Capital Increase, the Company indirectly held 100% and will hold 66% of the total equity interest in the Target Company, respectively (assuming that there will be no change in the total registered capital of the Target Company from the date of the Capital Increase Agreement to the date of completion of the Capital Increase). Subsequent to the Capital Increase, the Target Company will remain a subsidiary of the Company.

Post-completion Covenants or Undertakings

From the Capital Increase Price Payment Date and while the Investors hold equity in the Target Company:

(i) Nanyang Hengsheng and Wealth Depot (HK) undertake not to gift, transfer, sell, or otherwise dispose of their equity interest to any third parties without reaching prior written consensus with the Investors, and to ensure any transferee assume Nanyang Hengsheng's and Wealth Depot (HK)'s obligations under the Capital Increase Agreement;

(ii) Nanyang Hengsheng and Wealth Depot (HK) undertake not to initiate a merger of the Target Company with any third party without prior written notice to, and consent of, the Investors;

(iii) The Target Company shall not materially or substantially (where applicable) change its scope of business or nature of operations, material policies, or key existing contracts without the Investors' prior written consent;

(iv) The Target Company, Nanyang Hengsheng and Wealth Depot (HK) (as the case may be) undertake to accept the directors nominated by the Investors in accordance with the Capital Increase Agreement and assist in completing the procedures for the relevant elections. Nanyang Hengsheng and Wealth Depot (HK) shall not propose or vote to remove such directors except in cases of legal disqualification or misconduct;

(v) The Target Company's audited consolidated debt-to-asset ratio shall not exceed 80% annually, unless otherwise adjusted by written agreement with the Investors; and

(vi) The Target Company, Nanyang Hengsheng and Wealth Depot (HK) undertake to manage the Target Company's future borrowing and financing activities in accordance with the Capital Increase Agreement, including agreeing with the Investors an annual debt arrangement and financing plan (and applicable gearing limits), and ensuring that any material financing activities outside such plan or in breach of the agreed limits will be subject to the Investors' prior written consent.

The Debt-to-Asset Ratio Covenant

As at 31 March 2026, the unaudited consolidated debt-to-asset ratio of the Target Company was approximately 60.8%.

The Board (including the independent non-executive Directors) considers that the restriction of the Target Company's audited consolidated debt-to-asset ratio to 80% annually (the "**Gearing Covenant**") is fair and reasonable and in the interests of the Company and the Shareholders as a whole based on the following:

(a) Strengthening Financial Discipline and Risk Control

The Gearing Covenant serves as a prudent financial management tool to prevent excessive leverage. By capping the debt-to-asset ratio, the Target Company is encouraged to maintain a healthy capital structure and avoid the erosion of profit margins by high financing costs. This reduces the risk of liquidity crises during market fluctuations and strengthens the overall creditworthiness of the Target Company when negotiating with financial institutions.

(b) Alignment with the Use of Proceeds

A significant portion of the proceeds from the Capital Increase is intended to be used for the repayment of existing debts and the replenishment of working capital. This application of funds is expected to naturally lower the Target Company's current debt-to-asset ratio, thereby providing sufficient headroom for its future operations without breaching the Gearing Covenant.

(c) Balance between Investor Protection and Operational Flexibility

The Gearing Covenant is a customary protective provision in large-scale equity investments involving state-owned investors to ensure capital preservation. While it sets a clear ceiling, the arrangement is not a rigid restriction; it allows for adjustments via written agreement with the Investors. This provides a necessary "buffer" for the Target Company to undertake significant strategic investments or financings if required, subject to the consensus of the Investors and the Board.

(d) *Reasonable Threshold in the Industry Context*

The Board has reviewed the historical financial position of the Target Company and the general gearing levels of pharmaceutical manufacturing enterprises in the PRC. The Board is of the view that a 80% threshold provides ample operational flexibility for the Target Company's daily business and the progress of its current projects while serving its primary purpose of financial risk oversight.

Preferential Dividend Arrangement

In any fiscal year during which the Investors hold equity interest in the Target Company, the Investors shall be entitled to a preferential/priority cash dividend distribution from the Target Company. Specifically, subject to applicable PRC laws and regulations (including restrictions on profit distribution and availability of distributable profits), the Target Company shall, when making dividend distributions, pay the Investors in priority such amount as is intended to ensure that the Investors achieve a minimum cash dividend yield of not less than 6% per annum. Any shortfall (if the Target Company does not have sufficient distributable profits to pay the preferred dividend in any year) (i) shall be settled by the Target Company's accumulated undistributed profits (if any) at the material time, provided that the Target Company's normal investment and operational needs in the foreseeable future would not be affected; and/or (ii) shall be carried forward and accumulated for settlement in subsequent years (subject to distributable profits).

The determination of whether the Target Company has sufficient distributable profits is based on the audited financial statements of the Target Company prepared in accordance with PRC GAAP. Such determination, as well as the approval of the relevant profit distribution plan (including the payment of the preferential dividend and the assessment of the Target Company's statutory reserves and operational needs) are subject to the Reserved Matters under the Target Company's articles of association. As a Reserved Matter, any such profit distribution plan must be approved by shareholders representing not less than two-thirds (2/3) of the voting rights. Given that the existing shareholders (including Nanyang Hengsheng and Wealth Depot (HK)) will in aggregate hold approximately 66% of the enlarged registered capital, the approval of any profit distribution plan will practically require the affirmative vote of at least one of the Investors (who in aggregate hold approximately 34% of the enlarged registered capital) to be effective. This governance mechanism ensures that the Investors participate in the fair assessment of the Target Company's financial capacity to satisfy the preferential dividend entitlement in a given fiscal year and provides a contractual check to ensure such determination is not made unilaterally by the Existing Shareholders. For further details on the "Reserved Matters", please refer to the paragraph headed "Rights of the Investors — *Shareholders' Meeting Reserved Matters*" of this announcement below.

For the avoidance of doubt, the preferential dividend arrangement is intended to confer a priority entitlement to the Investors and does not deprive the Existing Shareholder(s) (including Nanyang Hengsheng) of their dividend rights. After satisfying the Investors' preferential dividend entitlement (including any accumulated shortfall where applicable), any remaining distributable profits (if any) may be distributed to all shareholders (including the Existing Shareholder(s)) in accordance with the Target Company's constitutional documents and applicable PRC laws (e.g. on a pro rata basis or as otherwise agreed by all shareholders).

Rights of the Investors

Shareholders' Meeting Reserved Matters

From the date of completion of the Capital Increase (inclusive), shareholders of the Target Company shall exercise their voting rights at shareholders' meetings in proportion to their respective paid-in capital contributions. A shareholders' meeting may only be validly convened if the Investors attend (whether in person or by other means permitted under applicable PRC laws and regulations, including electronic communication); failing which, any resolution purportedly passed at such meeting shall be invalid and of no effect. Generally, shareholders' resolutions of the Target Company shall be passed by shareholders representing more than one-half (1/2) of the voting rights. However, for the reserved matters (the "**Reserved Matters**") set out below, they shall be passed by shareholders representing not less than two-thirds (2/3) of the voting rights. The Reserved Matters are intended to cover issues of fundamental importance, including:

(i) adoption and amendment of the Target Company's articles of association;

(ii) approval of the Target Company's profit distribution plan and loss-recovery plan;

(iii) any increase or reduction of the registered capital of the Target Company in any form;

(iv) merger, division, change of corporate form, dissolution or liquidation of the Target Company;

(v) the Target Company's disposal of drug approval numbers/drug registration certificates; disposal of fixed assets, intangible assets (excluding all drug approval numbers/drug registration certificates) or equity interests; provision of external guarantees, external investments or external financings, where the transaction amount of a single transaction exceeds RMB5 million, or the cumulative amount of similar transactions within the same fiscal year exceeds RMB10 million; assumption of indebtedness or provision of financial assistance (directly or indirectly) to connected or non-connected parties (including loans, guarantees, related party transactions and related party fund occupation); and any change of the main business or termination of any core business of the Target Company; and

(vi) any financing activities that may cause the Target Company's year-end consolidated debt-to-asset ratio to exceed the agreed debt-to-asset ratio threshold.

Following payment of the capital injection by the Investors and prior to the shareholders' meeting approving and adopting the amended articles of association of the Target Company as agreed by the parties in connection with the Capital Increase, any matters requiring shareholders' special resolutions shall require the Investors' prior written consent. Further, following payment of the capital injection by the Investors, but prior to the amended articles of association being approved and adopted and the election of the Investors' nominated directors by the shareholders' meeting, if any matters that would otherwise fall within the authority of the board of directors are required to be resolved by the shareholders' meeting (as a result of such matters being included within the shareholders' meeting's authority), such matters shall be treated as shareholders' resolution matters and shall require approval by shareholders representing not less than two-thirds (2/3) of the voting rights including an affirmative vote by the Investors for the relevant resolution to be passed.

Pursuant to the Capital Increase Agreement, within fifteen (15) calendar days from the Capital Increase Price Payment Date, the articles of association of the Target Company shall be amended to reflect the Capital Increase.

Board Arrangements

The Investors shall have the right to nominate two directors, and Nanyang Hengsheng and Wealth Depot (HK) shall have the right to nominate three directors to the board of directors of the Target Company, with the chairman of the board being a director nominated by Nanyang Hengsheng and Wealth Depot (HK).

At the board level, each director shall have one vote. A board meeting may only be validly convened if more than half of all directors are present; failing which, any resolution purportedly passed at such meeting shall be invalid and of no effect. Generally, board resolutions shall be passed by a simple majority of all directors (one-director-one-vote). However, for the reserved matters (the "**Board Reserved Matters**") set out below, they shall be passed by more than two-thirds (2/3) of all directors (one-director-one-vote). The Board Reserved Matters are intended to cover issues of fundamental importance, including:

(i) formulation of the Target Company's annual financial budget plan and final accounts plan (including annual debt arrangements and financing plans);

(ii) formulation of the Target Company's profit distribution plan and loss-recovery plan;

(iii) formulation of plans for increasing or reducing the Target Company's registered capital and issuing corporate bonds;

(iv) formulation of plans for the Target Company's merger, division, dissolution, or change of corporate form;

(v) formulation of incentive schemes for the Target Company's senior management and employees; and

(vi) consideration and approval of any matters relating to directors, supervisors or senior management pursuing any corporate opportunities of the Target Company in accordance with Article 183 of the Company Law of the PRC.

The Board Reserved Matters are intended to operate as customary minority shareholder protection provisions and are limited to matters of fundamental importance, and do not extend to the day-to-day management and operational decisions of the Target Company. The Company will continue to hold approximately 66% equity interest in the Target Company upon completion of the Capital Increase and will retain the ability to control the composition of the board and the ordinary course of decision-making of the Target Company. Having discussed the above arrangements with the Company's auditors, the Directors are of the view that these provisions are protective in nature and are not expected to affect the Company's control over the Target Company for accounting purposes and the Target Company will continue to be consolidated as a subsidiary of the Company following completion of the Capital Increase.

Other Rights of the Investors

The Investors are also entitled to the following rights:

(i) The Target Company must timely provide the Investors with financial reports (unaudited annual, audited annual, quarterly/half-year), budgets, annual financing plan and other necessary information (if any). The Investors have ongoing rights to access, review, and supervise financial and operational information, including material risk events.

(ii) Nanyang Hengsheng and Wealth Depot (HK) shall not directly or indirectly transfer or otherwise dispose of their equity interests (or rights to returns) in the Target Company without the Investors' written consent. Employees' acquisition of equity interest in the Target Company and employee shareholding plans require Investors' approval and are subject to the same restrictions. If the Investors' exit cannot be achieved due to Nanyang Hengsheng, Wealth Depot (HK) and/or the Target Company, or in the event that they have breached any obligations, undertakings or warranties under the Capital Increase Agreement (as the case may be), the Investors may freely transfer their equity interests in the Target Company without any restriction, and each of Nanyang Hengsheng and Wealth Depot (HK) waives its pre-emptive rights. The Investors may transfer equity interests to affiliates or investment vehicles without consent from the Target Company, Nanyang Hengsheng and Wealth Depot (HK).

(iii) If Nanyang Hengsheng and/or Wealth Depot (HK) transfer equity interests in the Target Company to a third party (with the Investors' written consent), the Investors have a right of first refusal on equal terms.

(iv) If Nanyang Hengsheng and/or Wealth Depot (HK) intends to transfer equity interests in the Target Company to any third party, the Investors may sell a proportionate amount of their equity interests in the Target Company on the same terms to the transferee. If the transferee refuses, Nanyang Hengsheng and/or Wealth Depot (HK) shall not complete the transfer unless it acquires the Investors' equity interests on identical terms simultaneously.

(v) The Investors' rights under the Capital Increase Agreement shall remain in full force and effect notwithstanding any subsequent changes in their respective shareholding percentages resulting from any future issuance of equity interests, capital increase or other financing by the Target Company.

(vi) Upon liquidation of the Target Company, after statutory payments and debts, the Investors receive priority distribution of invested capital plus unpaid dividends; remaining assets shall be distributed to Nanyang Hengsheng and Wealth Depot (HK) up to their respective paid-in capital and agreed return; and any surplus is distributed pro rata among all shareholders of the Target Company.

Exit Arrangements

During the period in which the Investors hold equity interests in the Target Company, the Investors may realise an exit through the following mechanisms, subject to the terms of the Capital Increase Agreement, applicable PRC laws and regulatory requirements, and the necessary corporate approvals. The parties have agreed that the exit mechanisms described below are mutually agreed mechanism and do not confer an unconditional right on any party to compel another party to proceed with a particular exit method.

The Existing Shareholders may, during the Investors' equity holding period, propose to acquire all or part of the Investors' equity interests in the Target Company in order to facilitate the Investors' exit. The Existing Shareholders may submit a written request to the Investors for such transfer, and the transfer shall be implemented only with the Investors' consent. The transfer consideration shall be negotiated and agreed among the parties on an arm's length basis and in compliance with applicable PRC laws and regulations (including any applicable pricing, valuation and approval requirements).

The Investors may, during their equity holding period, transfer all or part of their equity interests in the Target Company to third parties on normal commercial terms (including through commercial negotiations with independent third parties), subject to compliance with applicable PRC laws and regulations and any transfer restrictions agreed under the transaction documents. The Target Company and the Existing Shareholders have agreed to provide the Investors with such reasonable assistance and cooperation as may be required for the purpose of effecting such transfer (including completion of internal procedures and registration/filing steps, where applicable).

Subject to unanimous agreement among the parties, the Target Company may effect a targeted capital reduction (including the repurchase and cancellation of all or part of the Investors' equity interests) as an exit mechanism. The capital reduction price shall be negotiated and agreed among the parties in accordance with applicable PRC laws and regulations.

Each of the above exit mechanisms will be carried out by the parties in compliance with the applicable Listing Rules requirements.

Use of Proceeds from the Capital Contribution

Pursuant to the Capital Increase Agreement, the Investors will subscribe for equity interests in Henan Fusen, and the subscription proceeds (net of relevant expenses, if any) will be received and utilised by the Group. The Company expects that the proceeds from the capital injection will be applied mainly as follows: (i) approximately 42.72% for repayment of indebtedness of Henan Fusen and its subsidiary; and (ii) approximately 57.28% for replenishment of general working capital. The indicative allocation among the above items will be finalised by the Group after taking into account Henan Fusen's updated cash flow needs and the repayment schedule of the relevant indebtedness.

In particular, the Board considers it appropriate to apply part of the proceeds towards debt repayment and working capital enhancement in light of the Group's liquidity position as disclosed in its published financial information. The Group reported net current liabilities as at 31 December 2025, and continued to face liquidity pressure as disclosed in its annual results for the financial year ended 31 December 2025. The capital injection is expected to alleviate the short-term funding pressure of the Group, improve its working capital position and support the Group's operational continuity.

Approximately 42.72% of the proceeds from the Capital Increase (equivalent to approximately RMB128.2 million) is intended to be applied towards the repayment of borrowings and settlement of trade-related financing obligations of the Group, comprising:

(i) approximately RMB58.4 million for the repayment of bank loans with interest rates ranging from 3.80% to 5.50% per annum and maturity dates between May 2026 and June 2027. These borrowings are generally secured by guarantees provided by members of the Group and/or its affiliates, and/or pledges over certain land use rights and properties held by the Group and/or its affiliates; and

(ii) approximately RMB69.8 million for the settlement of outstanding supply chain financing and trade-related financing payables incurred in the Group's ordinary course of business.

The Board considers that the utilization of proceeds for such repayments will optimize the Group's capital structure, reduce its gearing level, and alleviate the Group's overall financial and liquidity pressure.

Approximately 57.28% of the proceeds from the Capital Increase (equivalent to approximately RMB171.8 million) is intended to be applied towards replenishment of general working capital:

(i) approximately RMB27.0 million for sales expenses;

(ii) approximately RMB15.7 million for payment of wages and social insurance;

(iii) approximately RMB39.5 million for procurement payments to suppliers;

(iv) approximately RMB33.5 million for research and development expenses;

(v) approximately RMB15.0 million for payment of taxes;

(vi) approximately RMB5.5 million for payment of traditional Chinese medicine product transfer fee;

(vii) approximately RMB2.6 million for phase IIA clinical trial for Shi Yi Granules (濕疫顆粒二期臨床IIA); and

(viii) approximately RMB33.0 million as working capital reserve for the Group's general working capital requirements.

The proposed use of proceeds and the breakdown set out above are based on the Group's current assessment of the Target Company's and the Group's funding needs as at the date of this announcement, having regard to, among others, the Target Company's latest working capital requirements and the repayment schedule of the relevant indebtedness. The actual application of proceeds may be adjusted from time to time subject to the Target Company's operational requirements, changes in its working capital needs, the timing of debt repayments and other factors beyond the Group's control (including market conditions and regulatory or administrative requirements).

2. GENERAL INFORMATION OF THE PARTIES

The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. It is an investment holding company. The Group is principally engaged in manufacturing and sale of pharmaceutical products.

Target Company

The Target Company is a limited liability company established under the laws of the PRC, primarily engaged in manufacturing and sale of pharmaceutical products. As at the date of this announcement, the Target Company is a wholly owned subsidiary of the Company.

The following sets out (i) the unaudited financial information of the Target Company for the year ended 31 December 2024; and (ii) the audited financial information of the Target Company prepared in accordance with the PRC Generally Accepted Accounting Principles for the year ended 31 December 2025:

	For the year ended 31 December	
	2025	**2024**
	(audited)	*(unaudited)*
	Approx.	*Approx.*
	(RMB million)	*(RMB million)*
Total assets	1,489.7	1,551.6
Net assets	681.4	705.0
Revenue	301.1	289.8
Net profit/(loss) before tax	(45.8)	(18.1)
Net profit/(loss) after tax	(45.9)	(18.7)

Nanyang Industrial Investment

Nanyang Industrial Investment is a company established in the PRC with limited liability. To the best of the Directors' knowledge and information, based on the information provided by Nanyang Industrial Investment, it is principally engaged in the provision of elderly care, health and wellness services, rehabilitation support, and related consulting, training, and ancillary services. Nanyang Industrial Investment has a registered capital of RMB1 billion. Nanyang Industrial Investment is a wholly owned subsidiary of Nanyang Industrial Investment Group Co., Ltd.* (南陽產業投資集團有限公司)("**Nanyang Industrial Investment Group**"), which is in turn ultimately state-owned, being wholly owned by the Nanyang Municipal Finance Bureau. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Nanyang Industrial Investment and its ultimate beneficial owner are Independent Third Parties.

Henan Xisheng

Henan Xisheng is a company established in the PRC with limited liability. To the best of the Directors' knowledge and information, based on the information provided by Henan Xisheng, it is principally engaged in the business of providing industrial park and property leasing and management services and related construction works. Henan Xisheng has a registered capital of RMB360 million and is ultimately state-owned. It is owned as to 49% by Xichuan County Finance Bureau* (淅川縣財政局), and 51% by a state-owned enterprise, Nanyang Grain & Agriculture Investment Group Co., Ltd.* (南陽市糧農投資集團有限公司), which is in turn wholly owned by Nanyang Industrial Investment Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Henan Xisheng and its ultimate beneficial owner are Independent Third Parties.

3. FINANCIAL IMPACT OF THE CAPITAL INCREASE

The Capital Increase is not expected to generate any gains or losses. As the Company will hold 66% equity interest in the Target Company upon completion of the Capital Increase, the Capital Increase will not result in a change in the control of the Target Company or the consolidation scope of the Target Company's financial statements, as such will not lead to the Group recognizing any gains or losses in profit or loss.

Immediately upon completion of the Capital Increase, the Group's consolidated cash and cash equivalents and total assets are expected to increase by approximately RMB300 million, before taking into account the relevant transaction expenses and the subsequent application of the proceeds from the Capital Increase.

4. REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The Board considers that the Capital Increase is in the interests of the Company and its Shareholders as a whole. The capital injection introduces additional funding to Henan Fusen, enabling it to repay certain indebtedness and strengthen its working capital position. This is expected to improve the financial resilience of Henan Fusen and, by extension, the Group, particularly in a period where the Group's published results reflect a challenging operating environment and continued pressure on liquidity and working capital. In addition, the introduction of the Investors, which are PRC state-owned background investors, may bring strategic and financing support to the Group, and provide additional resources and market credibility in connection with the development and optimisation of the Group's operations.

The Directors consider that the terms of the Capital Increase Agreement are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

5. LISTING RULES IMPLICATIONS

The Capital Increase will constitute a deemed disposal of the equity interest in the Target Company held by the Company under Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Capital Increase exceed 25% but all such percentage ratios are less than 75%, the Capital Increase constitutes a major transaction of the Company and are therefore subject to the notification, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors has a material interest in the Capital Increase and hence no Director is required to abstain from voting on the relevant resolution(s) of the Board approving the Capital Increase Agreement and the transactions contemplated thereunder.

6. EGM

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Capital Increase Agreement and the transactions contemplated thereunder.

The voting in respect of the Capital Increase Agreement at the EGM will be conducted by way of poll. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder or any of their associates has any material interest in the Capital Increase Agreement and the transactions contemplated thereunder, and will be required to abstain from voting on the relevant resolution(s) to approve the Capital Increase Agreement and the transactions contemplated thereunder at the EGM.

A circular containing, among other things, details of the Capital Increase, letter from the Board, the Valuation Report and such other information as required under the Listing Rules; and a notice of the EGM, is expected to be despatched to the Shareholders on 23 June 2026.

Completion of the Capital Increase is conditional upon fulfillment of the conditions precedent set out in the Capital Increase Agreement. There is no assurance that completion will take place or as to when it may take place. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company.

7. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings as set out below:

"Board"	the board of directors of the Company
"Business Day(s)"	days other than public holidays and weekends of the PRC
"Capital Increase"	subscription of the newly increased registered capital of the Target Company by the Investors with an aggregate amount of RMB300 million in accordance with the Capital Increase Agreement
"Capital Increase Agreement"	the capital increase agreement entered into on 18 June 2026, between the Investors, Nanyang Hengsheng, Wealth Depot (HK) and the Target Company in relation to the Capital Increase
"Company"	Fusen Pharmaceutical Company Limited (福森藥業有限公司), a company incorporated in Cayman Islands with limited liability and whose shares are listed and traded on the Main Board of the Stock Exchange (stock code: 1652)
"Directors"	the directors of the Company

"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Capital Increase Agreement and the transactions contemplated thereunder
"Existing Shareholders"	Nanyang Hengsheng and Wealth Depot (HK)
"Group"	the Company and its subsidiaries
"Henan Fusen" or "Target Company"	Henan Fusen Pharmaceutical Company Limited* (河南福森藥業有限公司), a limited liability company established in the PRC on 10 October 2003 and a wholly-owned subsidiary of the Company
"Henan Xisheng"	Henan Xisheng Industrial Development Co., Ltd.* (河南淅勝產業發展有限責任公司), a limited liability company established under the laws of the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) independent of and not connected (as defined under the Listing Rules) with the Company and its connected person(s)
"Investors"	Nanyang Industrial Investment and Henan Xisheng
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Nanyang Hengsheng"	Nanyang Hengsheng Enterprise Management Services Limited* (南陽衡盛企業管理服務有限公司), a company established in the PRC with limited liability on 12 December 2012 and a wholly-owned subsidiary of the Company
"Nanyang Industrial Investment"	Nanyang Industrial Investment Health Industry Group Co., Ltd.* (南陽產投健康產業集團有限公司), a limited liability company established under the laws of the PRC
"PRC"	the People's Republic of China and, for the purpose of this announcement only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan region
"RMB"	Renminbi, the lawful currency of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Wealth Depot (HK)"	Wealth Depot (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on 5 October 2016 and a wholly-owned subsidiary of the Company
"%"	per cent

* *The English translation of Chinese names or words in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

By order of the Board
Fusen Pharmaceutical Company Limited
Mr. Cao Zhiming
Chairman and Executive Director

Hong Kong, 18 June 2026

As at the date of this announcement, the Board of the Company comprises Mr. Cao Zhiming (Chairman), Mr. Hou Taisheng, Mr. Chi Yongsheng and Ms. Meng Qingfen as executive Directors and Mr. Lee Kwok Tung Louis, Dr. To Kit Wa and Mr. Yu Ho Ming as independent non-executive Directors.