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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)

CONNECTED TRANSACTION SUBSCRIPTION OF SHARES IN A SUBSIDIARY OF THE COMPANY

THE SUBSCRIPTION AGREEMENT

On 21 January 2021, the Subscriber, HoldCo and the Target Company entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe and the Target Company has conditionally agreed to issue RMB5,555,600 registered capital of the Target Company at the Consideration of RMB13.5 million (equivalent to approximately HK\$16.2 million).

LISTING RULES IMPLICATIONS

Dr. Che is an executive Director and the chairman of the Company. As at the date of this announcement, Dr. Che is deemed to be indirectly interested in 63.5% of the issued share capital of the Company and is therefore a controlling shareholder of the Company. As the Subscriber is indirectly wholly-owned by Dr. Che, the Subscriber is a connected person of the Company under the Listing Rules and therefore the Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the Company's equity interest in the Target Company will be diluted as a result of the Subscription, the Subscription will constitute deemed disposal of the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio in respect of the Subscription exceeds 0.1% but is less than 5%, the Subscription is subject to the reporting and announcement requirements but is exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. As the Subscription and the Previous Disposals were transactions entered into with Dr. Che and/or his associates within a 12-month period, the

Subscription and the Previous Disposals shall be aggregated as a series of transactions of the Company pursuant to Rule 14.22 of the Listing Rules. The Subscription and the Previous Disposals (in aggregate) did not trigger a higher classification than a discloseable transaction for the Company under Chapter 14 of the Listing Rules. For further information on the Previous Disposals, please refer to the announcements of the Company dated 3 May 2020 and 13 November 2020 and the circular of the Company dated 29 May 2020.

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

BACKGROUND

On 21 January 2021, the Subscriber, HoldCo and the Target Company entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe 9.0% equity interest (on a fully diluted basis) in the Target Company at the Consideration of RMB13.5 million (equivalent to approximately HK\$16.2 million) in accordance with the terms and conditions of the Subscription Agreement.

THE SUBSCRIPTION AGREEMENT

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

- Date:** 21 January 2021
- Parties:** (1) the Subscriber;
- (2) HoldCo; and
- (3) the Target Company.

The Subscription

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe and the Target Company has conditionally agreed to issue RMB5,555,600 registered capital of the Target Company at the Consideration of RMB13.5 million (equivalent to approximately HK\$16.2 million).

Consideration

The Consideration of RMB13.5 million (equivalent to approximately HK\$16.2 million) is arrived at arm's length negotiation between the parties to the Subscription Agreement taking into account the valuation of the Target Company according to the Valuation Report.

The Consideration shall be paid by the Subscriber to the Target Company in cash no later than December 2021 and be accounted for as registered capital and capital reserves of the Target Company.

According to the Valuation Report, the entire equity interest of the Target Company was valued at RMB123.8 million as at 31 December 2020. The Valuation Report was prepared by the Valuer in accordance with International Valuation Standards through discounted cash flow method under the income approach. The valuation of the Target Company constitutes a profit forecast for the purpose of Rule 14.61 of the Listing Rules and accordingly, the requirements under Rules 14.60A and 14.62 of the Listing Rules are applicable. For the purpose of complying with Rule 14.62 of the Listing Rules, the following key assumptions in determining the market value of the Target Company have been made:

- the Target Company will be able to perform the business of distributing its product as per the distribution right agreement between Hugel Inc and the affiliated company of the Target Company;
- the valuation was primarily based on the financial projections and latest historical financial information made available to the Valuer. The projections outlined in the financial information provided were prepared on a reasonable basis, reflecting aspects of the Target Company including but not limited to the terms and conditions of the distribution right agreement, market conditions, economic fundamentals, availability of competent management and sufficient personnel, sufficient facilities and systems for future expansion, and they will materialise;
- the proposed capital injection to the Target Company prior to Completion has been completed as at the valuation date;
- the Target Company has, or will have, sufficient capital needs (financial, human, physical) to achieve or contribute to current and future production;
- there will be no material change in the core operations of the Target Company from what is present and/or expected;
- all relevant laws, statutes, ordinances and regulations pertaining to the Target Company are complied with and where applicable renewable upon expiry;
- operational and contractual terms stipulated in the contracts and agreements associated with the Target Company will be honoured;
- there are no hidden or unexpected conditions associated with the Target Company that might adversely affect the reported values; and
- there will be no material change in the existing political, legal, technological, fiscal or economic conditions from present and/or from what is expected, which might adversely affect the business of the Target Company.

The Valuer also assumed the accuracy of the financial and operational information provided by the Company and relied to a considerable extent on such information in arriving at their conclusion of value.

Pursuant to Rules 14.62 and 14A.68(7) of the Listing Rules, the Board has reviewed the principal assumptions upon which the valuation of the Target Company is based and is of the view that the profit forecast has been made after due and careful enquiry. EY, the Company's auditor, had also reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows on which the valuation of the Target Company was based in accordance with the bases and assumptions determined by the Directors. A letter from the Board with respect to Rule 14.60A of the Listing Rules will be submitted to the Stock Exchange together with this announcement, the texts of which are included in Appendix II to this announcement. A report from EY with respect to the profit forecast as required under Rule 14.62(2) of the Listing Rules will be submitted to the Stock Exchange together with this announcement, the texts of which are included in Appendix I to this announcement.

The qualifications of the experts who have provided their opinions and advice, which are included in this announcement, are as follows:

Name	Qualifications
JLL	Royal Institute of Chartered Surveyor Regulated Firm
EY	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this announcement with a copy of its letter and/or the reference to its name (including its qualifications) and its advice included in this announcement in the form and context in which it respectively appears.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, all the above experts are third parties independent from the Group and its connected persons.

As at the date of this announcement, none of the above experts has any equity interests in any member of the Group or has any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

Further Obligations

In order to proceed to Completion, the Subscriber and the Target Company have agreed to take the following steps:

- (a) to prepare all legal documents required by the registration authorities for the necessary registration of company changes in relation to the Subscription;

- (b) to take all possible actions to obtain the governmental approvals, consents and licenses (if applicable) to carry out the Subscription Agreement, and to fulfil the relevant registration requirements; and
- (c) to handle the business changes registration with the registration authorities and to submit the business changes information reflecting the Subscription to the business administrative management department.

Changes in the shareholding structure of the Target Company

It is expected that immediately upon Completion, the shareholding structure of the Target Company will be as follows:

Shareholder	Amount of registered capital (RMB)	Shareholding upon Completion
The Company (through its indirect wholly-owned subsidiary) Meiyan Space No. 1 (Tianjin) Biomedicine Technology LLP* (漢顏空間壹號 (天津) 生物醫藥科技合夥企業 (有限合夥))	50,000,000	81.0%
The Subscriber	6,172,800	10.0%
	5,555,600	9.0%
	<u>61,728,400</u>	<u>100.0%</u>

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

USE OF PROCEEDS AND FINANCIAL EFFECT OF THE SUBSCRIPTION

The net proceeds from the Subscription shall all be used for the development of the principal business of the Target Company.

Upon Completion, the Target Company will remain a subsidiary of the Company. As such, the accounts of the Target Company will continue to be recorded in the Group's consolidated accounts. As the Subscription will not result in a loss of the Group's control over the Target Company, any deemed disposal as a result of the Subscription will be accounted for as an equity transaction that will not result in the recognition of any gain or loss in profit or loss.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in the PRC with limited liability on 29 May 2018 and is primarily engaged in sales of medical aesthetics products such as botulinum toxin.

The unaudited consolidated financial information of the Target Company for the two financial years ended 31 December 2019 and 2020 is as follows:

	2019 <i>RMB'000</i> <i>(Unaudited)</i>	2020 <i>RMB'000</i> <i>(Unaudited)</i>
Revenue	405.1	146.4
Net profit/(loss) before tax	95.6	(435.8)
Net profit/(loss) after tax	71.9	(440.7)

The Target Company recorded an unaudited net liability of approximately RMB345,000 as at 31 December 2020.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Board considers that the cash inflow of the Consideration arising from the Subscription can strengthen the research, investment, mergers and acquisitions capacity as well as expansion of market share of the Target Company.

In light of above, the Directors (including the independent non-executive Directors but excluding Dr. Che, Dr. Guo Weicheng and Dr. Zhang Jionglong who are deemed to be interested and have abstained from voting in respect of the board resolution(s) proposed to approve the Subscription) are of the view that the Subscription Agreement and the transactions contemplated thereunder have been negotiated on an arm's length basis, agreed on normal commercial terms, and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES TO THE SUBSCRIPTION AGREEMENT

The Company

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

HoldCo

HoldCo is a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company.

The Subscriber

The Subscriber is a company incorporated in the British Virgin Islands which is an investment holding company indirectly wholly-owned by Dr. Che, an executive Director and the chairman of the Company. Accordingly, the Subscriber is a connected person of the Company.

LISTING RULES IMPLICATIONS

Dr. Che is an executive Director and the chairman of the Company. As at the date of this announcement, Dr. Che is deemed to be indirectly interested in 63.5% of the issued share capital of the Company and is therefore a controlling shareholder of the Company. As the Subscriber is indirectly wholly-owned by Dr. Che, the Subscriber is a connected person of the Company under the Listing Rules and therefore the Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the Company's equity interest in the Target Company will be diluted as a result of the Subscription, the Subscription will constitute deemed disposal of the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio in respect of the Subscription exceeds 0.1% but is less than 5%, the Subscription is subject to the reporting and announcement requirements but is exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. As the Subscription and the Previous Disposals were transactions entered into with Dr. Che and/or his associates within a 12-month period, the Subscription and the Previous Disposals shall be aggregated as a series of transactions of the Company pursuant to Rule 14.22 of the Listing Rules. The Subscription and the Previous Disposals (in aggregate) did not trigger a higher classification than a discloseable transaction for the Company under Chapter 14 of the Listing Rules. For further information on the Previous Disposals, please refer to the announcements of the Company dated 3 May 2020 and 13 November 2020 and the circular of the Company dated 29 May 2020.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Sihuan Pharmaceutical Holdings Group Ltd. (四環醫藥控股集團有限公司), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Subscription
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	RMB13.5 million (equivalent to approximately HK\$16.2 million), being the consideration payable by the Subscriber to the Target Company for the Subscription pursuant to the Subscription Agreement
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules

“Director(s)”	the director(s) of the Company
“Dr. Che”	Dr. Che Fengsheng, an executive Director and the chairman of the Company
“EY”	Ernst & Young, the auditor of the Company
“Group”	the Company and its subsidiaries
“HoldCo”	Hainan Sihuan Pharmaceutical Co., Ltd.* (海南四環醫藥有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, which for the purpose of interpretation of this announcement only, except where the context requires otherwise, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Previous Disposals”	The disposals of (1) the entire issued share capital of Chonghui Investment Limited* (重輝投資有限公司) and the assignment of the shareholder’s loan in accordance with the terms and conditions of the sale and purchase agreement dated 3 May 2020 entered into by Sun Moral International (HK) Limited (耀忠國際(香港)有限公司) for an aggregate consideration of RMB289.2 million; and (2) the 8.0% of the issued share capital of Jilin Huisheng Biological Pharmaceutical Co., Ltd.* (吉林惠升生物製藥有限公司) in accordance with the terms and conditions of the sale and purchase agreement dated 13 November 2020 between Beijing Sihuan Pharmaceutical Co., Ltd.* (北京四環製藥有限公司) and Tianjin Huierjin Biopharmaceutical Technology Partnership* (天津惠爾津生物醫藥科技合夥企業). For further information, please refer to the announcements of the Company dated 3 May 2020, 13 November 2020 and the circular of the Company dated 29 May 2020
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the issued and paid-up capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Euromax Holdings Limited, a limited liability company established in the British Virgin Islands and indirectly wholly-owned by Dr. Che, a connected person of the Company
“Subscription”	the subscription of approximately 9.0% equity interests (on a fully diluted basis) in the Target Company by the Subscriber at the Consideration
“Subscription Agreement”	the subscription agreement dated 21 January 2021 entered into between the Subscriber, HoldCo and the Target Company in relation to the Subscription
“Target Company”	Beijing Meiyuan Space Biomedicine Co., Ltd.* (北京漢顏空間生物醫藥有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“Valuation Report”	a valuation report issued by the Valuer
“Valuer” or “JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional valuer
“%”	per cent

* For identification purpose only

For the purpose of illustration only and unless otherwise stated, conversion of RMB into HK\$ in this announcement is based on the exchange rate of RMB1.00 to HK\$1.19816. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

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

Hong Kong, 21 January 2021

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

APPENDIX I — REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF THE TARGET COMPANY



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21 January 2021

To the Directors of Sihuan Pharmaceutical Holdings Group Ltd.

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation dated 21 January 2021 prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in respect of Beijing Meiyuan Space Biomedicine Co., Ltd.* (the “**Target**”) as at 31 December 2020 is based. The valuation is set out in the announcement of Sihuan Pharmaceutical Holdings Group Ltd. (the “**Company**”) dated 21 January 2021 (the “**Announcement**”) in connection with the subscription of shares of the Target. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ responsibilities

The directors of the Company (the “**Directors**”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed “**Consideration**” of the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

* *For identification purpose only*

APPENDIX II — LETTER FROM THE BOARD IN RELATION TO THE PROFIT FORECAST IN CONNECTION WITH THE VALUATION OF THE TARGET COMPANY



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)

21 January 2021

The Stock Exchange of Hong Kong Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central, Hong Kong

Dear Sirs,

CONNECTED TRANSACTION SUBSCRIPTION OF SHARES IN A SUBSIDIARY OF THE COMPANY

We refer to the announcement of the Company dated 21 January 2021 (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings in this letter when used herein.

We refer to the Valuation Report prepared by JLL, among which, the valuation of the Target Company (the “**Valuation**”) constitutes a profit forecast for the purpose of Rule 14.61 of the Listing Rules. We have reviewed the Valuation, which is set out in the Valuation Report on the Target Company prepared by JLL for which JLL is responsible.

Pursuant to Rule 14.62 of the Listing Rules, we have engaged EY, the auditors of the Company, to examine the calculations of the discounted cash flows of the Target Company, on which the Valuation was based, in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the Hong Kong Institute of Certified Public Accountants. The report from EY is set out in Appendix I to the Announcement.

On the basis of the foregoing, in accordance with the requirements under Rule 14.62(3) of the Listing Rules, we confirm that the Valuation has been made after due and careful enquiry.

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