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Sinco Pharmaceuticals Holdings Limited

兴科蓉医药控股有限公司

(Incorporated under the laws of Cayman Islands with limited liability)

(Stock Code: 6833)

**ANNOUNCEMENT RELATING TO
THE ACQUISITION OF DEMEI COMPANY BY ENTERING INTO
THE EQUITY TRANSFER AGREEMENTS AND THE LOAN AGREEMENT
AND THE CONTEMPLATED VIE CONTRACTUAL ARRANGEMENTS
FOR THE OPERATION OF
MEDICAL AESTHETICS HOSPITAL**

**THE EQUITY TRANSFER AGREEMENTS, THE LOAN AGREEMENT AND VIE
CONTRACTUAL ARRANGEMENTS**

Reference is made to the announcement of the Company dated 20 January 2022 in connection with the Potential Acquisition. Unless otherwise defined herein, capitalised terms used herein shall have the meaning as those defined in the Announcement.

The Board is pleased to announce that, on 22 March 2022 (after trading hours), Sichuan Sinco Biotech (a wholly-owned subsidiary of the Company, as the Purchaser under the Equity Transfer Agreement A and the lender under the Loan Agreement) and the PRC Equity Owner (being Mr. Huang, as the purchaser under the Equity Transfer Agreement B and the borrower under the Loan Transaction) entered into each of the respective Equity Transfer Agreements and the Loan Agreement (with a set of VIE Contractual Arrangements to be entered into upon the Completion under such Equity Transfer Agreements) for purposes of the Acquisition with a total consideration of up to RMB95,000,000.

Pursuant to the Equity Transfer Agreement A entered into among Sichuan Sinco Biotech (being the Purchaser), the Guarantors, the Vendor, the Target Company and Demei Company, the Vendor agrees to sell and the Purchaser agrees to acquire 100% equity interest in the Target Company from the Vendor at a consideration of up to RMB66,500,000. As at the date of the announcement, the Target Company owns and controls 70% equity interest in Demei Company.

Pursuant to the Equity Transfer Agreement B entered into among the PRC Equity Owner (as the purchaser), Mr. Jiang Biao, Mr. Zhang Min, Guanghan Haozheng (as the vendor), Renshangren and Demei Company, Guanghan Haozheng agrees to sell and the PRC Equity Owner agrees to acquire 100% equity interest in Renshangren at a consideration of up to RMB28,500,000. As at the date of the announcement, Renshangren owns and controls 30% equity interest in Demei Company (i.e., the OPCO). Pursuant to the Loan Agreement entered into between Sichuan Sinco Biotech and the PRC Equity Owner, Sichuan Sinco Biotech agrees to lend and the PRC Equity Owner agrees to borrow an aggregate amount of RMB28,500,000, the sole usage of the loan is for acquiring the entire equity interest in Renshangren (which owns and controls 30% equity interest in Demei Company). Due to foreign investment restrictions and licenses requirements in the PRC, Sichuan Sinco Biotech will enter into a set of VIE Contractual Arrangements with Renshangren and the OPCO and/or the PRC Equity Owner to prevent leakage of equity and values to minority shareholder of the OPCO and to obtain the maximum economic benefits of the OPCO.

Upon the entering into of the VIE Contractual Arrangements, 100% of the financial results of Renshangren and 30% of the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and Renshangren will become an indirect wholly-owned subsidiary of the Company.

Upon the Completion under the Equity Transfer Agreements and entering into the VIE Contractual Arrangements as contemplated, Demei Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of Demei Company will be consolidated into the consolidated financial statements of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As all the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Equity Transfer Agreements and the Loan Agreement (on an aggregate bases) are less than 5%, transactions contemplated under the Equity Transfer Agreements and the Loan Agreement do not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

Due to foreign investment restrictions in the PRC, we entered into the Loan Agreement (with the VIE Contractual Arrangements contemplated to be entered into between Sichuan Sinco Biotech, Renshangren, the OPCO and/or the PRC Equity Owner upon the Completion under the Equity Transfer Agreement B). Since the PRC Equity Owner (being Mr. Huang) is the son of executive Director, chairman of the Board and substantial shareholder of the Company, Mr. Huang Xiangbin, and therefore a connected person of the Company under Rule 14A.12 of the Listing Rules, the transactions contemplated under the VIE Contractual Arrangements will constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements but are exempt from the circular, independent financial adviser and shareholders' approval requirement pursuant to Rule 14A.76(2)(a) of the Listing Rules. The Company will make further announcement(s) as and when required under the Listing Rules and in accordance with the guidance letter HKEx GL77-14 as published by the Stock Exchange.

INTENDED APPLICATION FOR WAIVER

The Company intends to apply to the Stock Exchange for a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with the requirement of (i) fixing the term of the VIE Contractual Arrangements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules and (ii) setting a maximum aggregate annual cap for the fees payable to Sichuan Sinco Biotech under the VIE Contractual Arrangements pursuant to Rule 14A.53 of the Listing Rules, subject to certain conditions. The Company will make further announcement(s) as and when required under the Listing Rules as to the details of such waiver application.

INTRODUCTION

The Board is pleased to announce that, on 22 March 2022 (after trading hours), Sichuan Sinco Biotech (a wholly-owned subsidiary of the Company, as the Purchaser under the Equity Transfer Agreement A and the lender under the Loan Agreement) and the PRC Equity Owner (being Mr. Huang, as the purchaser under the Equity Transfer Agreement B and the borrower under the Loan Transaction) entered into each of the respective Equity Transfer Agreements and the Loan Agreement (with a set of VIE Contractual Arrangements contemplated to be entered into upon the Completion under the Equity Transfer Agreement B) for the purpose of the Acquisition at an aggregate consideration of up to RMB95,000,000.

Pursuant to the Equity Transfer Agreement A entered into among Sichuan Sinco Biotech (being the Purchaser), the Guarantors, the Vendor, the Target Company and Demei Company, the Vendor agrees to sell and the Purchaser agrees to acquire 100% equity interest in the Target Company from the Vendor at a consideration of up to RMB66,500,000. As at the date of the announcement, the Target Company owns and controls 70% equity interest in Demei Company.

Pursuant to the Equity Transfer Agreement B entered into among the PRC Equity Owner (as the purchaser), Mr. Jiang Biao, Mr. Zhang Min, Guanghan Haozheng (as the vendor), Renshangren (as the target company) and Demei Company, Guanghan Haozheng agrees to sell and the PRC Equity Owner agrees to acquire 100% equity interest in Renshangren at a consideration of up to RMB28,500,000. As at the date of the announcement, Renshangren owns and controls 30% equity interest in Demei Company (i.e., the OPCO). Pursuant to the Loan Agreement entered into between Sichuan Sinco Biotech and the PRC Equity Owner, Sichuan Sinco Biotech agrees to lend and the PRC Equity Owner agrees to borrow an aggregate amount of RMB28,500,000, the sole usage of the loan is for acquiring the entire equity interest in Renshangren. Due to foreign investment restrictions in the PRC, upon completion under the Equity Transfer Agreement B, Sichuan Sinco Biotech will enter into a set of VIE Contractual Arrangements with Renshangren and the OPCO and/or the PRC Equity Owner to prevent leakage of equity and values to minority shareholder of the OPCO and to obtain the maximum economic benefits of the OPCO.

Upon the entering into of the VIE Contractual Arrangements, 100% of the financial results of Renshangren and 30% of the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and Renshangren will become an indirect wholly-owned subsidiary of the Company.

Upon the Completion under the Equity Transfer Agreements and entering into the VIE Contractual Arrangements as contemplated, Demei Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of Demei Company will be consolidated into the consolidated financial statements of the Company.

THE EQUITY TRANSFER AGREEMENT A

The principal terms of the Equity Transfer Agreement A are primarily set out below:

Date

22 March 2022 (after trading hours)

Parties

- (1) Sichuan Sinco Biotech, a wholly-owned subsidiary of the Company, as the Purchaser;
- (2) the Vendor;
- (3) the Target Company; and
- (4) Mr. Jiang Biao, Mr. Zhuang Yuanfei, as the Guarantors.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the Guarantors, the Vendor and its ultimate beneficial owners (i.e. Mr. Jiang Biao and Mr. Zhuang Yuanfei) are Independent Third Parties.

Subject Matter

The Company has agreed to purchase all the equity interest of the Target Company held by the Vendor, representing 100% of the issued share capital of the Target Company.

Upon Completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company

Consideration

The consideration under the Equity Transfer Agreement A shall be up to RMB66,500,000.

The consideration of up to RMB66,500,000 was determined after arm’s length negotiations among the parties to the Equity Transfer Agreement A and taking into account the valuation result of the market value of 100% equity interest of Demei Company as at 31 December 2021 (the “**Valuation Date**”) prepared by Asia-Pacific Consulting and Appraisal Limited, an independent valuer of the Company in Hong Kong (the “**Valuer**”). Please refer to section headed “Information on the Valuer and the Valuation Report” in this announcement for further details on the Valuer and the Valuation Report.

Payment Method

Pursuant to the Equity Transfer Agreement A, subject to all conditions precedent to the Acquisition having been fulfilled or waived, the consideration of up to RMB66,500,000 shall be payable by the Purchaser to the Vendor in the following manner:

Item	Amount of the given installment	Percentage of the total consideration	Payment terms
First installment	RMB9,975,000	15.00%	The Equity Transfer Agreement A has been signed
Second installment	RMB37,625,000	56.58%	Satisfaction of all the conditions precedent and upon Completion
Third installment	RMB18,900,000	28.42%	The Target Company achieves the results targets for 2022, 2023, 2024

The Group intends to finance the consideration of up to RMB66,500,000 through the Group’s internal resources.

Results Targets and Consideration Adjustment Mechanism

The third installment shall be RMB18,900,000 and shall be paid by Sichuan Sinco Biotech in a lump sum within 30 days upon the official issuance of all audit data of Demei Company after the end of all the performance commitment years of 2022 (from the Completion Date to 31 December 2022), 2023 (for the period from 1 January 2023 to 31 December 2023) and 2024 (for the period from 1 January 2024 to 31 December 2024). If the target net profit of any year has not been achieved, the third installment shall be reduced in accordance with this agreement.

With respect to Demei Company, Mr. Jiang Biao, Mr. Zhuang Yuanfei and the Vendor hereby jointly and severally undertake and warrant to the investor that the audited net profit of Demei Company after the deduction of non-recurring profit and loss shall not be less than RMB24,100,000 for 2022, 2023 and 2024, and the results targets for each year are as follows (the net profit for each year below is referred to as the “**annual target net profit**”):

- (i) the audited net profit after the deduction of non-recurring profit and loss shall not be less than RMB5 million (RMB5,000,000) for 2022.

- (ii) the audited net profit after the deduction of non-recurring profit and loss shall not be less than RMB8.5 million (RMB8,500,000) for 2023.
- (iii) the audited net profit after the deduction of non-recurring profit and loss shall not be less than RMB10.6 million (RMB10,600,000) for 2024.

Based on the audit data, if (i) the actual annual net profit of Demei Company for 2022, 2023 and 2024 \geq 80% of the annual target net profit and (ii) the sum of the actual net profit of the three years \geq the sum of the target net profit of the three years, the investor shall pay the third installment in full.

However, based on the audit data, if (i) the annual actual net profit for all of three years in 2022, 2023 and 2024 \geq 80% of the annual target net profit and (ii) the sum of the actual net profit of the three years $<$ *the sum of the target net profit of the three years*, the amount calculated in accordance to the following cumulative measurement for the three years from 2022 to 2024 will be deducted from the third installment of the equity transfer price: Deduction amount = *(the sum of the target net profit of the three years - sum of the actual net profit of the three years) \div the sum of the target net profit of the three years* x amount of the third installment of the equity transfer price.

Based on the audit data, if, in any of the above financial years, 80% of the annual target net profit $>$ the annual actual net profit \geq 50% of the annual target net profit, the amount calculated according to the following calculation methods for each year will be deducted from the third installment (even if the sum of the actual net profits for the three years \geq the sum of the target net profits for the three years): the annual deduction amount = (annual target net profit - annual actual net profit) \div annual target profit x amount of the third installment of the equity transfer price corresponding to the current period.

Based on the audit data, if, in any of the above financial years, the actual annual net profit is less than 50% of the annual target net profit, the investor shall be entitled to choose, at its sole discretion, to dispose of this equity transfer in any of the following ways:

- (i) To request any one or more of the core founder, the founding shareholder and the Vendor to immediately return the first installment and the second installment in full and repurchase all equity interests held by the investor in the Target Company at the interest of 10% (simple interest) per annum; or
- (ii) To conduct revaluation for the Target Company (including its subsidiary, Demei Company) based on the actual annual net profit and adjust the total equity transfer price.

Conditions Precedent

Completion shall be subject to the following conditions precedent having been satisfied or fulfilled or waived (by Sichuan Sinco Biotech):

- (a) Demei Clinic has completed the Restructuring as agreed by all parties and has transferred all assets, medical aesthetic businesses, and most of its staff to Demei Company, and the existing partners of Demei Clinic have issued a resolution of the general meeting of partners agreeing to formally start the dissolution and liquidation of Demei Clinic;

- (b) Demei Company carries out various businesses such as plastic surgery, skin beauty, dentistry, etc., and has obtained the corresponding approval and practice license qualification as required by applicable laws and regulations;
- (c) Demei Company has entered into employment contracts with its core team members in a form and content satisfactory to Sichuan Sinco Biotech for a term of not less than five years, as well as non-compete agreements, intellectual property ownership and confidentiality agreements;
- (d) the results of the due diligence investigations of the Target Company and Demei Company regarding the operational, financial and legal aspects of the business are satisfactory to Sichuan Sinco Biotech;
- (e) there has been no material adverse change in the condition (financial or otherwise) results of operations, assets, regulatory status, business or prospects of the Target Company, Demei Company, Demei Clinic, the founding shareholder, the core founder and their affiliates in general (unless otherwise expressly stipulated in the asset acquisition agreement), and no event or events have occurred that, individually or in combination, have had a material adverse effect, and there is no reasonable expectation that such events will not occur that could, individually or in combination, have a material adverse effect;
- (f) the founding shareholder, the core founder and the Vendor have not breached any of their obligations under this agreement, and all representations warranties and undertakings made by such subjects in this agreement are true, complete and valid as of the date of execution and thereafter until the Completion Date;
- (g) there are no laws, rules, regulations, regulatory documents and other relevant regulatory provisions which render or may render any transaction document or transaction or arrangement thereunder illegal, unlawful, voidable, invalid or unenforceable by the relevant judicial or administrative regulatory authority, nor is there any judgment, ruling or order of any judicial or administrative regulatory authority requiring the suspension or termination of any transaction or arrangement described in this agreement;
- (h) no governmental authority has enacted, promulgated, enforced or passed any law or governmental order that would render the transactions contemplated by this agreement unlawful or otherwise restrict or prohibit the transactions contemplated by the transaction documents;
- (i) the relevant entitled lessor has signed a termination agreement of the existing lease contract with Demei Clinic, and such entitled lessor has signed a lease agreement with Demei Company for a term of five years at an annual rent of RMB500,000 (five hundred thousand yuan) in a form and content satisfactory to Sichuan Sinco Biotech;
- (j) Demei Clinic and Demei Company have jointly completed the asset valuation of the various assets to be transferred under the asset acquisition agreement, and Demei Clinic and Demei Company have jointly signed the Asset Acquisition Agreement and completed the performance based on the aforesaid asset valuation results;

- (k) the financial base date statements (including but not limited to fixed assets, liabilities, net asset value, paid-in capital) of the Target Company and Demei Company as of the financial base date have been signed and confirmed by both the Vendor and Sichuan Sinco Biotech; and
- (l) the Vendor has received the first installment of the equity transfer price in full.

Completion

Completion shall take place on the Completion Date when the conditions precedent above are satisfied or waived.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group's financial statements.

Guarantee provided by the Guarantors

The Guarantors agreed to guarantee, as primary obligors, the performance by the Vendor of its obligations under the Equity Transfer Agreement A.

THE EQUITY TRANSFER AGREEMENT B

Save for the parties and terms in respect of the consideration, payment methods and results target and consideration adjustment mechanism (which are set out below), the principal terms of the Equity Transfer Agreement B are substantially same to those of the Equity Transfer Agreement A as disclosed above.

Parties

- (1) The PRC Equity Owner (being Mr. Huang and the purchaser);
- (2) Mr. Jiang Biao and Mr. Zhang Min (being the guarantors);
- (3) Guanghai Haozheng (being the vendor);
- (4) Renshangren (being the target company); and
- (5) Demei Company.

Consideration

The consideration under the Equity Transfer Agreement B shall be up to RMB28,500,000.

Payment methods

Pursuant to the Equity Transfer Agreement B, subject to all conditions precedent to the Acquisition having been fulfilled or waived, the consideration of up to RMB28,500,000 shall be payable by the PRC Equity Owner to the Guanghan Haozheng in the following manner:

Item	Amount of the given installment	Percentage of the total consideration	Payment terms
First installment	RMB4,275,000	15.00%	The Equity Transfer Agreement B has been signed
Second installment	RMB16,125,000	56.58%	Satisfaction of all the conditions precedent and upon Completion
Third installment	RMB8,100,000	28.42%	Renshangren achieves the results targets for 2022, 2023, 2024

The Group intends to finance the consideration of up to RMB28,500,000 through the Group's internal resources.

Results Target and Consideration Adjustment Mechanism

The third installment shall be RMB8,100,000 and shall be paid by the PRC Equity Owner in a lump sum within 30 days upon the official issuance of all audit data of Demei Company after the end of all the performance commitment years of 2022 (from the Completion Date to 31 December 2022), 2023 (for the period from 1 January 2023 to 31 December 2023) and 2024 (for the period from 1 January 2024 to 31 December 2024). If total amount of the target net profit for the three years has not been achieved, the third installment shall be reduced in accordance with this agreement.

With respect to Demei Company, Mr. Jiang Biao, Mr. Zhang Min and Guanghan Haozheng hereby jointly and severally undertake and warrant to the investor that the total amount of the audited net profit of Demei Company after the deduction of non-recurring profit and loss shall not be less than RMB24,100,000 for 2022, 2023 and 2024, and the results targets for each year are as follows (the net profit for each year below is referred to as the “**annual target net profit**”):

- (i) the audited net profit after the deduction of non-recurring profit and loss shall not be less than RMB5,000,000 for 2022.
- (ii) the audited net profit after the deduction of non-recurring profit and loss shall not be less than RMB8,500,000 for 2023.
- (iii) the audited net profit after the deduction of non-recurring profit and loss shall not be less than RMB10,600,000 for 2024.

Based on the audit data, if (i) the actual annual net profit of Demei Company for 2022, 2023 and 2024 $\geq 80\%$ of the annual target net profit and (ii) the sum of the actual net profit of the three years \geq the sum of the target net profit of the three years, the investor shall pay the third installment in full.

However, based on the audit data, if (i) the annual actual net profit for all of three years in 2022, 2023 and 2024 $\geq 80\%$ of the annual target net profit and (ii) the sum of the actual net profit of the three years $<$ *the sum of the target net profit of the three years*, the amount calculated in accordance to the following cumulative measurement for the three years from 2022 to 2024 will be deducted from the third installment of the equity transfer price: Deduction amount = *(the sum of the target net profit of the three years - sum of the actual net profit of the three years) \div the sum of the target net profit of the three years* x amount of the third installment of the equity transfer price.

Based on the audit data, if, in any of the above financial years, 80% of the annual target net profit $>$ the annual actual net profit $\geq 50\%$ of the annual target net profit, the amount calculated according to the following calculation methods for each year will be deducted from the third installment (even if the sum of the actual net profits for the three years \geq the sum of the target net profits for the three years): the annual deduction amount = (annual target net profit - annual actual net profit) \div annual target profit x amount of the third installment of the equity transfer price corresponding to the current period.

Based on the audit data, if, in any of the above financial years, the actual annual net profit is less than 50% of the annual target net profit, the investor shall be entitled to choose, at its sole discretion, to dispose of this equity transfer in any of the following ways:

- (i) To request any one or more of the core founder, the founding shareholder and Guanghai Haozheng to immediately return the first installment and the second installment in full and repurchase all equity interests held by the investor in the Renshangren at the interest of 10% (simple interest) per annum; or
- (ii) To conduct revaluation for the Renshangren (including its subsidiary, Demei Company) based on the actual annual net profit and adjust the total equity transfer price.

THE LOAN AGREEMENT

The principal terms of the Loan Agreement are set out below:

Date

22 March 2022 (after trading hours)

Parties

Sichuan Sinco Biotech (as the lender) and Mr. Huang (as the borrower)

Principal amount and Usage

RMB28,500,000, the borrower shall apply the loan amount of RMB28,500,000 for the acquisition of the entire equity interest in Renshangren which holds 30% equity interest in Demei Company (i.e. the OPCO)

Interest Rate

Interest-free

Validity Period

From the date of the Loan Agreement to the completion of the repayment by the borrower

Repayment

- (1) Unless otherwise stipulated in this agreement, the repayment hereunder may only be made by the following: subject to the law of the PRC and with the consent of lenders, the borrower shall transfer all or part of its equity interest in Renshangren to the lender or the person designated by the lender, and the proceeds from such equity transfer shall be used to repay the loan under this agreement to the lender.
- (2) Both parties unanimously agree and confirm that when the repayment method specified in the item (1) above becomes impracticable, subject to the law of the PRC and with the consent of lender, any proceeds obtained by the borrower through the transfer of its equity interest or assets in Renshangren (including 30% equity interest in Demei Company) shall be used to repay the loan under this agreement until the loan is fully settled, and the borrower shall pay such proceeds in the manner specified by the lender.
- (3) Save as provided in (1) and (2) above, borrower is not required to repay the loan under this agreement in cash or otherwise.
- (4) For the avoidance of doubt, both parties agree that the responsibilities and obligations of the borrower to repay the loan under this agreement are limited to any gains obtained from the transfer of its equity interest or assets held in Renshangren without involving any other personal assets of the borrower.

FINANCIAL INFORMATION OF THE TARGET COMPANY AND DEMEI CLINIC

The Target Company is a company established under the law of the PRC with limited liability in March 2022, the principal business of which is investment holding which holds 70% equity interest in Demei Company. The following table sets out the unaudited consolidated financial information of the Demei Clinic for the two years ended 31 December 2020 and 31 December 2021:

	For the year ended 31 December 2020 (unaudited) RMB (approximately '000)	For the year ended 31 December 2021 (unaudited) RMB (approximately '000)
Net profit before taxation	6,673	8,324
Net profit after taxation	5,005	6,243

As at 31 December 2021, the unaudited total asset and net asset value of the Demei Clinic were approximately RMB23,674,000 and approximately RMB9,643,000, respectively.

INFORMATION ON THE VALUER AND THE VALUATION REPORT

The Valuation Report was prepared based on International Valuation Standards issued by the International Valuation Standards Council. The methodology adopted in the preparation of the Valuation Report is market approach. According to the Valuation Report, the market value of 100% equity interest of Demei Company as at the Valuation Date is reasonably stated approximately at the amount of RMB97,000,000.

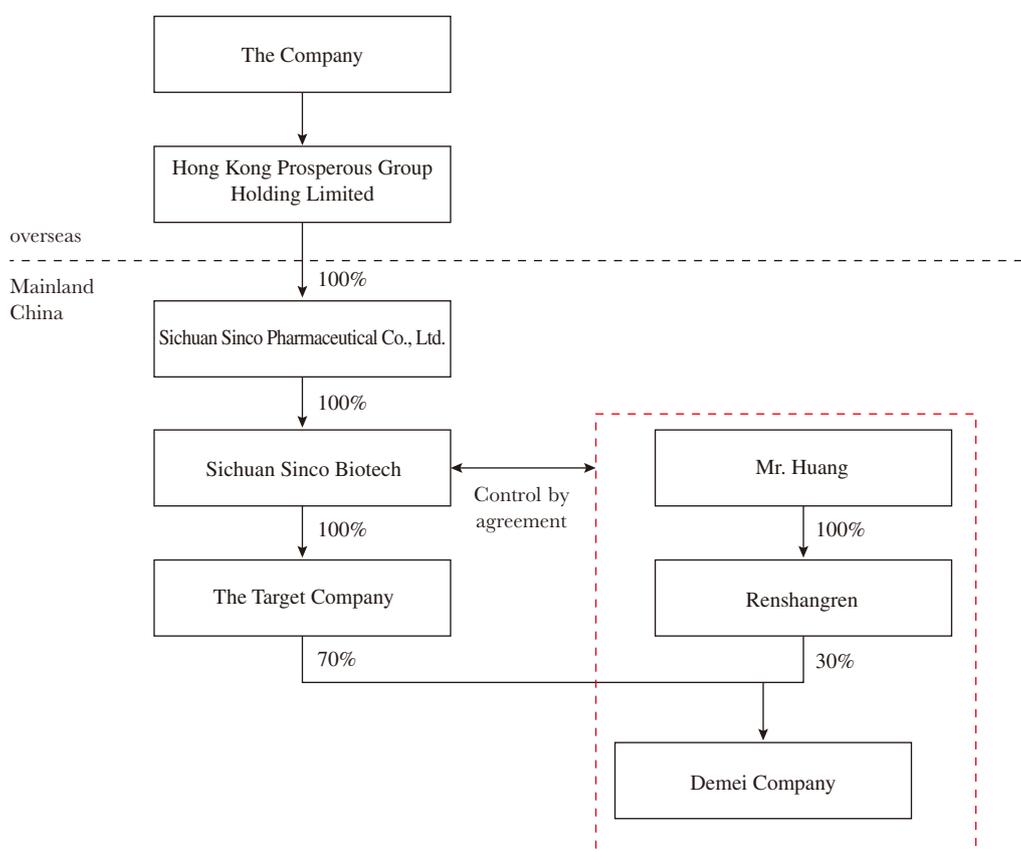
The Valuer made the following key assumptions in providing the valuation on Demei Company:

- (1) as at the Valuation date, Demei Company and the Target Company were in the process of establishing and reorganizing, the valuation assumes that the restructuring has been completed as at the Valuation Date;
- (2) all relevant legal approvals and business certificates or licenses to operate the business in which Demei Company operates or intends to operate have been or would be officially obtained and renewable upon expiry;
- (3) there will be no major change in the political, legal, economic and social environment in which Demei Company operates or intends to operate;
- (4) interest rates and exchange rates in the localities for the operation of Demei Company will not differ materially from those presently prevailing;

- (5) it is assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- (6) the financial and operational information provided by the Company is accurate and it is relied to a considerable extent on such information in arriving at the opinion of value; and
- (7) there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value.

REASONS FOR USING THE VIE CONTRACTUAL ARRANGEMENTS

The following diagram illustrates the flow of the economic benefit from the OPCO to the Company under the VIE Contractual Arrangements:



As the VIE Contractual Arrangements will be entered into upon the Completion, the Company will make further announcement as and when required under the Listing Rules and in accordance with the guidance letter HKEx GL77-14 as published by the Stock Exchange. The Company, in consultation with the PRC Legal Adviser, will ensure that the VIE Contractual Arrangements are legal and will not violate any mandatory provisions under the current PRC law.

REASONS FOR AND BENEFITS OF THE ACQUISITION, THE ENTERING INTO OF THE EQUITY TRANSFER AGREEMENT AND THE VIE CONTRACTUAL ARRANGEMENTS

As disclosed in the Announcement, leveraging the Group's expertise and experience in the provision of imported pharmaceutical products, the Group intends to develop its medical aesthetic industry chain and gradually establish the dual business segments of pharmaceutical products and medical aesthetic products as its business development direction. Through the Acquisition, the Directors believe that, (i) the Group could capitalise on the medical professionals, equipments and facilities of Demei Company as well as its network in the medical aesthetic industry, which could facilitate the research and development works of the Technological Development Project; (ii) the Group will expand its presence and have direct access to the downstream end of the medical aesthetic industry, which could be beneficially for the Group to build up its brand name in the industry, to obtain more comprehensive market information and to have a direct and better understanding of the customers' requirements in medical aesthetic products and services; and (iii) Demei Company and its network could bring synergy effect to the marketing and sales of the Group's pharmaceutical products and medical aesthetic products at a later stage.

Further, as advised by the PRC Legal Advisers, (i) pursuant to the Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2021) ("**Negative List**"), medical institutions may not be held 100% by foreign investors, and foreign investments are restricted to the form of Chinese-foreign equity joint venture. Furthermore, as advised by the PRC legal advisor of the Company, according to the Provisional Measures for the Administration of Medical Institutions in the Form of Chinese-foreign Equity or Contractual Joint Venture and the Negative List, a foreign entity, shall not directly or indirectly hold more than 70% equity interest in medical institutions in the PRC ("**Foreign Ownership Restriction**"); (ii) Demei Company is a medical institution in the PRC and is subject to the Foreign Ownership Restriction.

Pursuant to the Equity Transfer Agreement A, upon Completion, Sichuan Sinco Biotech will own and control as to 70% equity interest in Demei Company. In order to prevent leakages of equity and values to minority shareholders, and to obtain the maximum economic benefits of Demei Company to be attributable to the Company, the Equity Transfer Agreement B and the Loan Agreement were entered into. For reasons as explained above, the Directors believe that the terms and conditions of the Equity Transfer Agreements and the Loan Agreement as well as the contemplated entering into of the VIE Contractual Arrangements are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole.

INFORMATION ON THE GROUP AND THE PURCHASER

The Group is principally engaged in the provision of comprehensive marketing, promotion and channel management service for imported pharmaceutical products in the PRC. The Company is an exempted company incorporated in the Cayman Islands with limited liability and the principal business activity of which being investment holding.

Sichuan Sinco Biotech is a company established under the laws of the PRC with limited liability in November 2013, the principal business of which is investment holding. As at the date of this announcement, Sichuan Sinco Biotech is wholly-owned by the Company.

INFORMATION ON COUNTERPARTIES TO THE EQUITY TRANSFER AGREEMENTS AND THE TARGET COMPANY

Mr. Jiang Biao is the substantial shareholder, executive director and supervisor of Demei Company and an Independent Third Party, while Mr. Zhuang Yuanfei is the substantial shareholder and supervisor of the Vendor and an Independent Third Party. Mr. Zhang Min is a substantial shareholder and supervisor of Guanghan Haozheng and an Independent Third Party.

The Vendor is a company established under the law of the PRC with limited liability in March 2022, the principal business of which is investment holding. As at the date of the announcement, the Vendor is owned by Mr. Jiang Biao and Mr. Zhuang Yuanfei as to 70% and 30%, respectively. The Target Company (being the directly wholly-owned subsidiary of the Vendor as at the date of the announcement) is a company established under the law of the PRC with limited liability in March 2022, the principal business of which is investment holding. Demei Company is a company established under the law of the PRC with limited liability in March 2022, the principal business of which is the provision of Medical Aesthetics Businesses in the PRC. As at the date of the announcement, Demei Company is owned by the Target Company and Renshangren as to 70% and 30%, respectively.

Guanghan Haozheng is a company established under the law of the PRC with limited liability in March 2022, the principal business of which is investment holding. As at the date of the announcement, Guanghan Haozheng is owned by Mr. Jiang Biao and Mr. Zhang Min as to 70% and 30%, respectively.

As at the date of the announcement, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed in this announcement, the counterparties to the Equity Transfer Agreements and the Loan Agreement are third parties independent of the Company and connected persons of the Company.

INFORMATION ON THE PRC EQUITY OWNER

Mr. Huang is the son of Mr. Huang Xiangbin, the executive Director, chairman of the Board and the substantial shareholder of the Company, and therefore a connected person of the Company under Rule 14A.12 of the Listing Rules.

LISTING RULES IMPLICATIONS

As all the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Equity Transfer Agreements and the Loan Agreement (on an aggregate bases) are less than 5%, transactions contemplated under the Equity Transfer Agreements and the Loan Agreement do not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

Due to foreign investment restrictions in the PRC, we entered into the Loan Agreement and (with the VIE Contractual Arrangements contemplated to be entered into between Sichuan Sinco Biotech, Renshangren, the OPCO and/or the PRC Equity Owner upon the Completion). Since the PRC Equity Owner (being Mr. Huang) is the son of executive Director, chairman of the Board and substantial shareholder of the Company, Mr. Huang Xiangbin, and therefore a connected person of the Company under Rule 14A.12 of the Listing Rules, the transactions contemplated under the VIE Contractual Arrangements will constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements but are exempt from the circular, independent financial adviser and shareholders' approval requirement pursuant to Rule 14A.76(2)(a) of the Listing Rules. The Company will make further announcement(s) as and when required under the Listing Rules and in accordance with the guidance letter HKEx GL77-14 as published by the Stock Exchange.

Confirmation of the Board

Save as Mr. Huang Xiangbin, who is deemed to have material interests in the Acquisition, has abstained from voting on the relevant resolutions of the Board, none of the other Directors has or is deemed to have a material interest in the transactions contemplated under the Acquisition.

REASON AND BENEFIT OF USING THE VIE CONTRACTUAL ARRANGEMENTS

Opinion of the Board

According to Rule 14A.52 of the Listing Rules, the term of the VIE Contractual Arrangements must not exceed three years except in special circumstances where the nature of the transaction requires a longer period.

The Board (including the independent non-executive Directors) is currently of the opinion that the VIE Contractual Arrangements is required to allow the Group to enjoy the economic benefits under the contractual arrangements as long as the VIE Contractual Arrangements are effective; and it is a normal business practice for agreements of this type to be of such duration.

In arriving at its opinion, the Board has considered the following principal factors and reasons:

- (i) the Group is principally engaged in provision of comprehensive marketing, promotion and channel management service for imported pharmaceutical products in the PRC. The Group is strenuously developing its strategic layout in the realms of medical aesthetic services in the PRC, and thus pursuing the Acquisition to carry out the Medical Aesthetics Businesses.

As advised by the PRC Legal Advisers, the Company holding more than 70% equity interest in the OPCO will not be in compliance with the Provisional Measures for the Administration of Medical Institutions in the Form of Chinese-foreign Equity or Contractual Joint Venture concerning the medical service businesses. In order to comply with the relevant PRC laws and regulations, the VIE Contractual Arrangements are contemplated to be entered into among Sichuan Sinco Biotech, Renshangren, the OPCO and the PRC Equity Owner;

- (ii) as advised by the PRC Legal Advisers, it is not uncommon for foreign company to enter into similar arrangements, such as the VIE Contractual Arrangements, in order to comply with the relevant laws and regulations in the PRC to conduct medical service businesses which are subject to Foreign Ownership Restriction and require the Practice License for Medical Institutions, the Group will be able to prevent leakage of equity and values to minority shareholder of the OPCO and to obtain the maximum economic benefits of the OPCO; and
- (iii) the VIE Contractual Arrangements will provide long-term binding contractual relationship which the Company will be able to enjoy the future economic interests and benefits derived from the OPCO while complying with the relevant laws and regulations.

Intended Application for Waiver

The Company intends to apply to the Stock Exchange for a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with the requirement of (i) fixing the term of the VIE Contractual Arrangements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules and (ii) setting a maximum aggregate annual cap for the fees payable to Sichuan Sinco Biotech under the VIE Contractual Arrangements pursuant to Rule 14A.53 of the Listing Rules, subject to the certain conditions. The Company will make further announcement(s) as and when required under the Listing Rules as to the details of such waiver application.

DEFINITIONS

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

“Acquisition”	the acquisition of the entire interest in Demei Company and their parent companies (i.e., Renshangren and the Target Company);
“Announcement”	the announcement of the Company dated 20 January 2022 in connection with the Potential Acquisition (as defined therein);
“Board”	the board of Directors of the Company;
“Company”	Sinco Pharmaceuticals Holdings Limited (興科蓉醫藥控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 6833);
“Completion”	the completion of the sale and purchase of the Equity Interest and 100% equity interest in Renshangren in accordance with the Equity Transfer Agreements;

“Completion Date”	within 45 business days from the date of the Equity Transfer Agreements or such other date as agreed between relevant parties to the Equity Transfer Agreements;
“connected person(s)”	has the meaning set out in the Listing Rules;
“Consideration”	the total consideration of the Acquisition of up to RMB95,000,000;
“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules;
“Demei Clinic”	Deyang Demei Medical Beauty Clinic (General Partnership)* (德陽德美醫療美容門診部(普通合夥)), a general partnership enterprise established under the law of the PRC;
“Demei Company” or “OPCO”	Deyang Demei Medical Beauty Hospital Limited Company* (德陽德美醫療美容醫院有限公司), a limited liability company incorporated in the PRC to acquire the Medical Aesthetic Businesses, assets and most of the staff of Deyang Clinic via Restructuring;
“Director(s)”	the director(s) of the Company from time to time;
“Equity Interest”	100% equity interest in the Target Company;
“Equity Transfer Agreements”	the two agreements dated 22 March 2022 prepared respectively for the sale and purchase of (i) the Equity Interest of the Target Company entered into by and among the Purchaser, Jiang Biao* (蔣彪), Zhuang Yuanfei* (莊元飛), the Vendor, the Target Company and Demei Company in relation to the sale and purchase of 100% equity interest in the Target Company (the “ Equity Transfer Agreement A ”) and (ii) the equity interest of Renshangren entered into by and among the PRC Equity Owner, Jiang Biao* (蔣彪), Zhang Min* (張敏), RSR Seller, Renshangren and Demei Company in relation to the sale and purchase of 100% equity interest in Renshangren (the “ Equity Transfer Agreement B ”);
“Group”	the Company and its subsidiaries;
“Guanghan Haozheng”	Guanghan Haozheng Trading Co., Ltd.* (廣漢市浩正商貿有限責任公司), a company established under the law of the PRC with limited liability;

“Guarantors”	being Mr. Jiang Biao and Mr. Zhuang Yuanfei;
“Independent Shareholders”	shareholders of the Company other than those who have material interests in the continuing connected transactions under the VIE Contractual Arrangements;
“Independent Third Party”	a third party independent of the Company and the connected persons of the Company and is not a connected person of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange;
“Loan Agreement”	the loan agreement (借款協議) entered into between the PRC Equity Owner and Sichuan Sinco Biotech;
“Loan Transaction”	the transaction under the Loan Agreement;
“Medical Aesthetic Businesses”	mainly divided into two segments: plastic surgery business and skin beauty business. Plastic surgery business refers to the business of providing surgical treatment and care to clients. The details of the business model are that specific needs of the clients are identified through communications with the clients at the early stage, based on which specific tailored products will then be purchased before nurses, doctors and anesthesiologists collaboratively complete the specified surgery. The skin beauty business refers to the provision of treatment and management services for skin customers. The details of the business model are that the consultants give clients advice on skin management based on the clients’ skin test results, before providing them finally with skin treatment services according to the skin beauty program, treatment methods and equipment confirmed by the clients.
“Mr. Huang” or “PRC Equity Owner”	Mr. Huang Zhijian, being the son of Mr. Huang Xiangbin, the executive Director;
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan;
“PRC Legal Adviser”	the legal adviser to the Company as to the PRC laws;

“Purchaser” or “Sichuan Sinco Biotech”	Sichuan Sinco Biotech Limited Company* (四川興科蓉 生物科技有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company;
“Renshangren”	Deyang Renshangren Pharmaceutical Technology Co., Ltd. (德陽仁尚仁醫藥技術有限公司), a limited liability company incorporated in the PRC;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	shareholder(s) of the Company;
“Stock Exchange”	the Stock Exchange of Hong Kong Limited;
“Target Company”	Deyang Yisida Biotech Limited* (德陽億思達生物科技有限 公司);
“Vendor”	Guanghan Fire Genie E-Commerce Co.* (廣漢火精靈電子 商務有限責任公司);
“VIE Contractual Arrangements”	collectively and tentatively, comprising of the exclusive business cooperation agreements, the exclusive purchase right agreements, the power of attorney and undertaking letters, the equity pledge agreements and the spousal consent letter; and
“%”	per cent.

By Order of the Board
Sinco Pharmaceuticals Holdings Limited
Huang Xiangbin
Chairman and Executive Director

Sichuan, the PRC, 22 March 2022

As at the date of this announcement, the executive Director is Mr. Huang Xiangbin; and the independent non-executive Directors are Mr. Lau Ying Kit, Mr. Wang Qing, Mr. Liu Wenfang and Mr. Bai Zhizhong.

* For identification purpose only