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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your securities broker or other registered securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Sihuan Pharmaceutical Holdings Group Ltd.**, you should at once hand this circular to the purchaser or transferee or to the bank, securities broker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

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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)**

**PROPOSED DEEMED DISPOSAL AND MAJOR TRANSACTION  
IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF XUANZHU  
BIOPHARMACEUTICAL TECHNOLOGY**

**Independent Financial Adviser to the Independent  
Board Committee and the Shareholders**



**SOMERLEY CAPITAL LIMITED**

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Capitalised terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 3 to 13 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Shareholders is set out on page IBC-1 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders is set out on pages IFA-1 to IFA-25 of this circular.

The Proposed Spin-off has been approved by way of written shareholders' approval pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This circular is being despatched to the Shareholders for information only.

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## CONTENTS

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|  | <i>Page</i> |
|--|-------------|
| <b>DEFINITIONS</b> .....                                     | 1           |
| <b>LETTER FROM THE BOARD</b> .....                           | 3           |
| <b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....     | IBC-1       |
| <b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....   | IFA-1       |
| <b>APPENDIX I — FINANCIAL INFORMATION OF THE GROUP</b> ..... | I-1         |
| <b>APPENDIX II — GENERAL INFORMATION</b> .....               | II-1        |

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the same meanings as set out below:*

|                                 |  |
|---------------------------------|--|
| “AIC Group”                     | the group of Shareholders that shall act in concert in respect of 5,404,594,038 Shares that they are interested in pursuant to a concert party agreement, comprising Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Mr. Meng Xianhui, Network Victory Limited, Proper Process International Limited, Successmax Global Holdings Limited, Smart Top Overseas Limited, Victory Faith International Limited, Keen Mate Limited and Mingyao Capital Limited |
| “associate”                     | 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  |
| “controlling shareholder(s)”    | has the meaning ascribed to it under the Listing Rules   |
| “CSRC”                          | China Securities Regulatory Commission   |
| “Director(s)”                   | the director(s) of the Company   |
| “Group”                         | the Company and its subsidiaries   |
| “HK\$”                          | Hong Kong dollars, the lawful currency of Hong Kong  |
| “Hong Kong”                     | Hong Kong Special Administrative Region of the PRC   |
| “Independent Board Committee”   | an independent board committee of the Board comprising all of the independent non-executive Directors  |
| “Independent Financial Adviser” | Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off   |
| “Latest Practicable Date”       | 27 April 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular   |

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## DEFINITIONS

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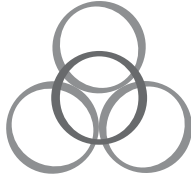
|   |  |
|---|--|
| “Listing Rules”   | the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time  |
| “Main Board”  | the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange  |
| “PN15”  | Practice Note 15 of the Listing Rules  |
| “PRC”   | the People’s Republic of China exclude, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan   |
| “PRC Stock Exchange”  | Shanghai Stock Exchange Science and Technology Innovation Board  |
| “Proposed A-Share Listing”                                  | the proposed listing of the shares of the Spin-off Entity on the PRC Stock Exchange by way of an initial public offering   |
| “Proposed Spin-off”   | the proposed spin-off of the shares of the Spin-off Entity on the PRC Stock Exchange, to be effected by the Proposed A-Share Listing   |
| “Remaining Group”   | the Group, excluding the Spin-off Group  |
| “RMB”   | Renminbi, the lawful currency of the PRC   |
| “R&D”   | research and development   |
| “SFO”   | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time   |
| “Share(s)”  | ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company  |
| “Shareholder(s)”  | the holder(s) of the Share(s)  |
| “Spin-off Entity” or “Xuanzhu Biopharmaceutical Technology” | Xuanzhu Biopharmaceutical Technology Co., Ltd.* (軒竹生物科技股份有限公司) (formerly known as Xuanzhu (Shijiazhuang) Biopharmaceutical Technology Co., Ltd.* (軒竹(石家莊)生物科技股份有限公司) and Xuanzhu (Hainan) Biopharmaceutical Co., Ltd.* (軒竹(海南)醫藥科技有限公司)), a joint stock company established in the PRC with limited liability and a non-wholly owned subsidiary of the Group as at the Latest Practicable Date |
| “Spin-off Group”  | the Spin-off Entity and its subsidiaries   |
| “Stock Exchange”  | The Stock Exchange of Hong Kong Limited  |
| “%”   | per cent   |

\* for identification purposes only

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Dr. Che Fengsheng  
Dr. Guo Weicheng  
Dr. Zhang Jionglong  
Mr. Choi Yiau Chong  
Ms. Chen Yanling

*Independent Non-executive Directors:*

Mr. Patrick Sun  
Mr. Tsang Wah Kwong  
Dr. Zhu Xun

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business  
in Hong Kong:*

Room 4309  
Office Tower  
Convention Plaza  
1 Harbour Road, Wan Chai  
Hong Kong

5 May 2022

*To the Shareholders,*

Dear Sir/Madam,

**PROPOSED DEEMED DISPOSAL AND MAJOR TRANSACTION  
IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF XUANZHU  
BIOPHARMACEUTICAL TECHNOLOGY**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 27 March 2022 in respect of the Proposed-Spin-off. The purpose of this circular is to provide you with, among other things, (i) information on the Proposed Spin-off; (ii) the recommendation of the Independent Board Committee and the advice of the Independent Financial Adviser regarding the Proposed Spin-off as required under paragraph 3(e) of PN15; and (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders regarding the Proposed Spin-off.

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## LETTER FROM THE BOARD

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### II. THE PROPOSED SPIN-OFF

#### Background

The Proposed Spin-off involves the spin-off of the Spin-off Entity and its separate listing on the PRC Stock Exchange by way of an initial public offering. For the purpose of the Proposed Spin-off, the Company has submitted a proposal on the Proposed Spin-off to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off under PN15. The Stock Exchange also granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under the Proposed Spin-off as required by paragraph 3(f) of PN15.

Subject to approval by the relevant PRC regulators, it is currently proposed that the Spin-off Entity will issue A-shares on the PRC Stock Exchange by way of an initial public offering to public investors in the market, or other methods as requested or agreed by the CSRC. The actual number of shares to be offered by the Spin-off Entity will depend on the market conditions and the relevant rules and regulations of the CSRC as amended from time to time. It is expected that immediately upon completion of the Proposed Spin-off, the Spin-off entity will remain as an indirect subsidiary of the Company and its financial results will continue to be consolidated into the accounts of the Group.

#### Timetable of the Proposed Spin-off

China International Capital Corporation Co., Ltd. (the “**Sponsor**”) was appointed as the sole sponsor of the Spin-off Entity for the Proposed A-Share Listing. The Sponsor, together with the Hebei Regulatory Bureau of CSRC, commenced the pre-listing tutorial with the Spin-off Entity in December 2021 in accordance with the relevant PRC regulatory and legal requirements, and the pre-listing tutorial is expected to be completed in May 2022. The Spin-off Entity intends to submit the application for the Proposed A-Share Listing to the PRC Stock Exchange in May 2022. Based on the current proposed timetable, the Proposed Spin-off is expected to be completed in the fourth quarter of 2022. As at the Latest Practicable Date, no formal application for the Proposed A-Share Listing has been filed with the relevant regulatory authorities in the PRC.

If there is any unforeseen material change in relation to the Proposed Spin-off or the Spin-off Entity will cease to be a subsidiary of the Company and its financial results will cease to be consolidated into the accounts of the Group upon completion of the Proposed Spin-off, the Company will re-comply with the requirements for notifiable transaction in accordance with Chapter 14 of the Listing Rules.

#### Conditions of the Proposed Spin-off

The Proposed Spin-off will be conditional upon, among other things, the following:

- (a) approval of the Proposed Spin-off by the Shareholders;
- (b) approval of the Proposed A-Share Listing by the board of directors and the shareholders of the Spin-off Entity;
- (c) approval of the Proposed Spin-off by the Listing Committee of the Stock Exchange;

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## LETTER FROM THE BOARD

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- (d) the approval and/or registration of the PRC Stock Exchange and the CSRC in relation to the Proposed A-Share Listing; and
- (e) any other PRC regulatory approvals required by the relevant laws and regulations.

As at the Latest Practicable Date, conditions (a), (b) and (c) have been fulfilled. None of the conditions is waivable. If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and the Company will make relevant disclosure as soon as practicable.

### **Proceeds to be raised from the Proposed A-Share Listing**

As the exact offer price and the expected size of the Proposed A-Share Listing are not determined at this stage, the proceeds to be raised from the Proposed A-Share Listing cannot be determined yet. It is currently expected that the proceeds to be raised from the Proposed A-Share Listing will be from RMB1.2 billion to RMB3.5 billion based on, among others, (i) the value of the Spin-off Group estimated through comparison with other listed companies in similar industries, the Spin-off Entity's previous fundraising size and estimation of the future development and financial performance of the Spin-off Group; (ii) the Spin-off Group's current business and expansion plan, in particular the R&D, industrialisation and commercialisation of its products, and thereby its capital and financing needs; and (iii) the minimum offering size required by the relevant regulations in the PRC and the maximum intended offering size of the Proposed A-Share Listing, being 10% and 25% of the enlarged issued share capital of the Spin-off Entity, respectively. and the intended use of proceeds. However, investors should be aware that the proceeds to be raised is subject to future business needs of the Spin-off Group and the market conditions close to the launch of the Proposed A-Share Listing.

The offer price of shares of the Spin-off Entity to be offered under the Proposed A-Share Listing has not been fixed yet and is subject to market conditions close to the launch of the Proposed A-Share Listing and will be determined with reference to the then responses to the price consultation and other method(s) to be agreed between the Spin-off Entity and the lead underwriter. In determining the offer price, the Spin-off Entity will take into account, among other things, (i) its historical operating results and financial performance; (ii) its business prospects; (iii) its expansion plan and capital needs; (iv) the responses to price consultation to the Proposed A-Share Listing in the book-building process; (v) the A-share market performance around the offering date; and (vi) an appropriate valuation level comparing to the comparable companies listed in the PRC in similar industries of the Spin-off Entity. Investors should be aware that the offer price of the Proposed A-Share Listing will be determined at a date close to the launch of the Proposed A-Share Listing based on several factors, some of which are beyond the control of the Spin-off Entity and the underwriter(s) of the Proposed A-Share Listing. The Spin-off Entity shall comply with the rules and regulations of the PRC Stock Exchange (if any) in the determination of the final offering price and shall make relevant disclosures on the PRC Stock Exchange accordingly.

Pursuant to the relevant regulations in the PRC, the Spin-off Entity will offer not less than 10% of its enlarged issued share capital for subscription.

The Company will make further announcement(s) once the information relating to the final offer price and expected net proceeds of the Proposed A-Share Listing is available.

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## LETTER FROM THE BOARD

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### Intended use of proceeds

The Spin-off Entity intends to apply the net proceeds from the Proposed A-Share Listing (after deducting related expenses) in the following manner:

- (a) approximately 67% will be used for R&D of the Spin-off Group's innovative drugs, including the application and commencement of clinical trials and other relevant R&D procedures for six of its key innovative drugs targeting oncology;
- (b) approximately 13% will be used for construction of the Spin-off Group's headquarters and the industrialisation of the Spin-off Group's innovative drugs, which mainly includes costs for construction, acquisition of equipment, installation, engineering and other related costs; and
- (c) approximately 20% will be used for general working capital, including the sales and marketing and commercialisation of the Spin-off Group's key products, and the R&D of other new innovative drugs to be included in the pipeline.

The intends uses of proceeds are determined based on the current business and expansion plan of the Spin-off Group and thereby the capital and financing needs, taking into account, among others, (i) the core business of the Spin-off Group is the R&D of innovative drugs and the majority of the proceeds from the Proposed A-Share Listing shall be used for the business expansion of the R&D on a number of therapeutic areas such as oncology, metabolism and digestion, and among the current key product pipeline, two products are in stage III clinical trial, one product in stage I clinical trial, and one product each in preparation, applied, or obtained approval for clinical trials, respectively as at the Latest Practicable Date, and are expected to complete in around 2025 and 2026; (ii) the inherent need for the construction of a production facility for the industrialisation and production of the Spin-off Group's products, in which the planning and design has completed as at the Latest Practicable Date and the construction is expected to complete in 2026; and (iii) the commercialisation efforts required for sales and marketing of the Spin-off Group's products in the future.

Based on the estimation of the board of directors of the Spin-off Entity, the capital required for the abovementioned purposes (a), (b) and (c) are approximately RMB1,659.9 million, RMB320.0 million and RMB490.1 million, respectively. Any shortfall between the required capital and the proceeds allocated to such purpose is expected to be funded by the funds previously raised by the Spin-off Group, its own capital or other financing means. On the other hand, if the proceeds from the Proposed A-Share Listing exceed the above funding requirements, the surplus funds will be used for general working capital of the Spin-off Group to the extent permitted by applicable laws and regulations. If the proceeds of the Proposed A-Share Listing are not immediately applied to the above purposes, they will be deposited into short-term interest-bearing accounts at licensed commercial banks or other authorized financial institutions. In addition, if any part of the Spin-off Group's plan does not proceed as planned that would render any of its plans not viable, or the occurrence of force majeure events, the Spin-off Group will carefully evaluate the situation and may reallocate the proceeds from the Proposed A-Share Listing in accordance with the rules and regulations and comply with the disclosure requirements of the PRC Stock Exchange.

It is currently expected that the proceeds to be raised through the Proposed A-Share Listing will be not less than RMB1.2 billion. However, in the event that the offering shares for subscription is less than 10% of the enlarged share capital of the Spin-off Entity or the market value of the Spin-off Entity after the issuance will be less than RMB4.0 billion, the listing eligibility of the Spin-off Group pursuant to the currently applicable PRC Stock Exchange rules will not be met and the Proposed A-Share Listing shall not proceed. Additionally, if the Proposed A-Share Listing is postponed, terminated or lapsed, the Spin-off Entity will use its best endeavours to finance the aforesaid projects with its funds or funds to be raised by other financing method(s), which may include, among other things, bank borrowings; and the gearing ratios of the Company and the Spin-off Entity may be affected if debt financing is used to fund these projects.

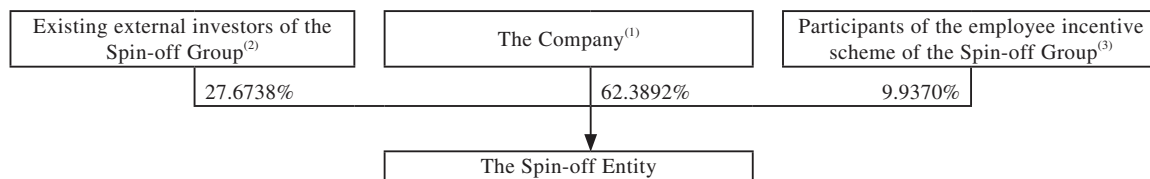


## LETTER FROM THE BOARD

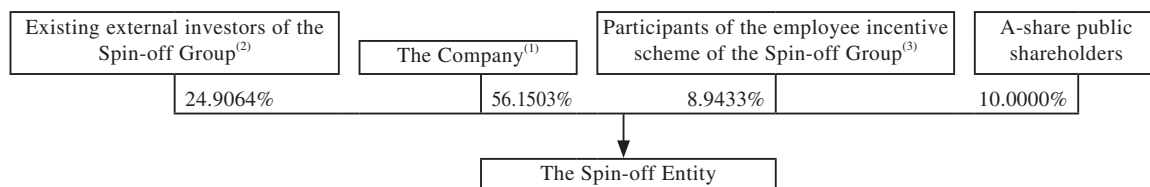
### Effects of the Proposed Spin-off on the shareholding structure of the Spin-off Entity

Based on the current plan of the Proposed Spin-off, set out below is a simplified shareholding structure of the Spin-off Entity as at the Latest Practicable Date and immediately upon completion of the Proposed Spin-off:

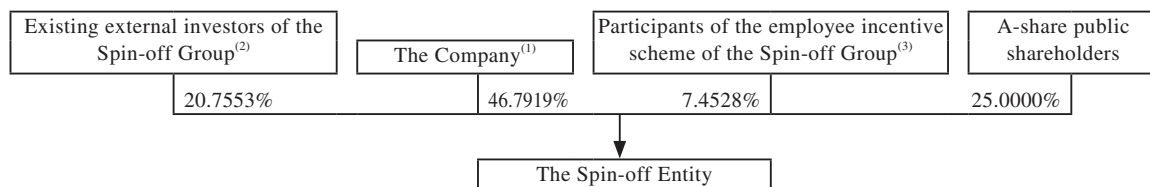
*Shareholding structure of the Spin-off Entity as at the Latest Practicable Date:*



*Shareholding structure of the Spin-off Entity immediately upon completion of the Proposed Spin-off (assuming the offering size represents 10% of the enlarged issued share capital of the Spin-off Entity):*



*Shareholding structure of the Spin-off Entity immediately upon completion of the Proposed Spin-off (assuming the offering size represents approximately 25.0% of the enlarged issued share capital of the Spin-off Entity):*



Notes:

1. The Company's interest in the Spin-off Entity is held indirectly through the Company's wholly-owned subsidiaries.
2. This includes 18 external investors that participated in the historic equity fundraising activities of the Spin-off Entity, including Jingjinji Industry Synergistic Development Investment Fund (Limited Partnership)\* (京津冀產業協同發展投資基金(有限合夥)), Xianjin Manufacture Industry Investment Fund Second Phase (Limited Partnership)\* (先進製造產業投資基金二期(有限合夥)), Shijiazhuang Keshe Investment Centre (Limited Partnership)\* (石家莊科碩投資中心(有限合夥)), Beijing Tonghe Yinxing Innovative Asset Management Centre (Limited Partnership)\* (北京同合銀杏創新資產管理中心(有限合夥)), Beijing SL Pharmaceutical Co., Ltd.\* (北京雙鷺藥業股份有限公司), Sunshine Life Insurance Co., Ltd.\* (陽光人壽保險股份有限公司), Jinjiang Xuanhong No. 3 Equity Investment Partnership (Limited Partnership)\* (晉江軒弘三號股權投資合夥企業(有限合夥)), Shaanxi Jinou Investment Fund Partnership (Limited Partnership)\* (陝西金甌投資基金合夥企業(有限合夥)), Jiangmen Yifeng Yihe Venture Capital Partnership (Limited Partnership)\* (江門市倚鋒邑和創業投資合夥企業(有限合夥)), Hebeizhongjicai Industrial Advancement Equity Investment Fund (Limited Partnership)\* (河北中冀財工業升級股權投資基金合夥企業(有限合夥)), Shanghai Yunxin Venture Capital Partnership (Limited Partnership)\* (上海雲錚創業投資合夥企業(有限合夥)), Shanghai Chuangfengxinwen Venture Capital Partnership (Limited Partnership)\* (上海創豐昕文創業投資合夥企業(有限合夥)), Suzhou Taijin No. 1 Equity Investment Partnership (Limited Partnership)\* (蘇州太金壹號股權投資合夥企業(有限合夥)).

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## LETTER FROM THE BOARD

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夥)), BOC Capital Investment Holding Co., Ltd.\* (中銀資本投資控股有限公司), Tianjin Baichuan Win Win Enterprise Management Partnership (Limited Partnership)\* (天津百川共贏企業管理合夥企業(有限合夥)), Shenzhen Denuowei No. 1 Investment Partnership (Limited Partnership)\* (深圳市德諾維一號投資合夥企業(有限合夥)), Yantai Boyuan Development Investment Partnership (Limited Partnership)\* (煙台伯元發展投資合夥企業(有限合夥)), Wanxin Qifu (Shenzhen) Venture Capital Centre (Limited Partnership)\* (灣信啟富(深圳)創業投資中心(有限合夥)).

3. The participants of the employee incentive scheme of the Spin-off Entity comprises of SHIH Cheng-Kon, LI Jia Kui, XU Yanjun and 10 entities established or incorporated in the PRC with limited liability and owned by certain specified employees of the Spin-off Group.

### III. INFORMATION ON THE PARTIES

#### The Company

The Company is an investment holding company. Founded in 2001 and listed on the Main Board of the Stock Exchange in 2010, the Group is an international pharmaceutical company led and driven by both innovation and generic, with a leading independent production and R&D technology platform, a rich global product pipeline and a mature and excellent sales system. Focusing on high-growth therapeutic areas such as medical aesthetics, cardiovascular and cerebrovascular, digestive system, anti-infectives, oncology, psycho neurology and diabetes, the Group is building a leading medical aesthetics and biopharmaceutical leader in the PRC with a two-wheel drive strategy of independent innovation and research and incubation to cultivate high-growth new businesses.

#### The Spin-off Group

The Spin-off Entity is a company established in the PRC with limited liability on 5 September 2018. It is the innovative drug R&D subsidiary of the Group with integrated R&D capabilities from pre-clinical development to clinical development, registration and commercialisation for both small and large molecules. The Spin-off Entity mainly engages in the R&D of innovative drugs, focusing on a number of therapeutic areas such as oncology, metabolism and digestion. As at the Latest Practicable Date, the key product pipeline of the Spin-off Group includes eight, two and one drugs for oncology, metabolism and digestion, respectively.

As at the Latest Practicable Date, the Spin-off Entity is an indirect non-wholly owned subsidiary of the Company and held as to 62.3892%, 27.6738% and 9.9370% by the Company, external investors of the Spin-off Group and participants of the employee incentive scheme of the Spin-off Group, respectively. The unaudited consolidated financial information of the Spin-off Group for the two financial years ended 31 December 2020 and 2021 is as follows:

|                       | <i>RMB'000</i>                        |             |
|-----------------------|---------------------------------------|-------------|
|                       | <b>For the year ended 31 December</b> |             |
|                       | <b>2020</b>                           | <b>2021</b> |
| Revenue               | —                                     | —           |
| Net (loss) before tax | (120,260)                             | (470,392)   |
| Net (loss) after tax  | (120,854)                             | (470,392)   |

The unaudited consolidated net asset value of Spin-off Group as at 31 December 2021 was approximately RMB1,747,748,063.52.

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## LETTER FROM THE BOARD

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### **The Remaining Group**

Upon completion of the Proposed Spin-off, the Remaining Group will continue to be principally engaged in medical aesthetics, pharmaceutical business of generic drugs, diabetes-related businesses and CDMO/CMO businesses. Further, immediately upon completion of the Proposed Spin-off, the Remaining Group will satisfy all the requirements under paragraph 3(c) of PN15 and retain a sufficient level of operations and assets to support its separate listing status.

### **IV. FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP**

It is expected that immediately upon completion of the Proposed Spin-off, the Company's indirect equity interests in the Spin-off Entity may decrease to 46.7919% but having discussed with its auditors, the Company believes that it will be able to continue control the Spin-off Group, in which the Spin-off Entity will remain as a subsidiary of the Company and the financial results of the Spin-off Group will continue to be consolidated into the accounts of the Company in accordance with the requirements of the International Financial Reporting Standards based on the following reasons:

- (a) upon completion of the Proposed Spin-off, the Company will continue to remain as the single largest shareholder of the Spin-off Group and its voting rights in the Spin-off Entity (being no less than 46.7919%) is expected to remain far above and far exceed that of any other shareholders, as (i) the voting rights of the second-largest shareholder in the Spin-off Entity is expected not to exceed 10%; and (ii) the Spin-off Entity has a diverse base of minority shareholders, counting 31 (excluding the Company) as at the Latest Practicable Date, and is expected to further enlarge and disperse as a result of the Proposed A-share Listing on the PRC Stock Exchange; and
- (b) noting the general attendance level in general meetings of PRC-listed issuers, it is common that not all shareholders attend the general meetings of PRC-listed issuers and therefore, it is reasonably expected that the Company's voting rights at any general meeting of the Spin-off Group (upon completion of the Proposed Spin-off and Proposed A-share Listing) will exceed 50% of the voting rights of all attending shareholders of the Spin-off Entity.

The following is the expected financial impact of the Proposed Spin-off on the Group:

### **Earnings**

The Proposed Spin-off will be regarded as a transaction with non-controlling interest, the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in the Spin-off Entity. It is expected that there would be no gain or loss on the deemed disposal and the Proposed Spin-off to be recognised in the Company's consolidated income statement upon completion of the Proposed Spin-off in accordance with International Financial Reporting Standards 10. The difference between the amount by which the non-controlling interest is adjusted and the net proceeds raised from the Proposed A-Share Listing will be recorded in equity attributed to the Shareholders. In addition, as the proportion of the Company's shareholding in the Spin-off Entity will be diluted immediately upon completion of the Proposed Spin-off and the Spin-off Entity incurred net loss, it is expected that the earnings attributable to shareholders of the Company contributed by the Spin-off Entity will increase.

The Spin-off Group will continue to be accounted for as a subsidiary of the Company upon completion of the Proposed Spin-off and the financial results of the Spin-off Group will continue to be consolidated into the accounts of the Group. The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among other things, the return generated from the proceeds raised from the Proposed A-Share Listing as well as the future business operations of the Spin-off Group.

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## LETTER FROM THE BOARD

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### Assets and Liabilities

The Proposed A-Share Listing will increase the number of shares of the Spin-off Entity and raise corresponding funds. The net proceeds of the Proposed A-Share Listing will increase the cash recorded in the consolidated balance sheet of the Group and increase the total assets of the Group correspondingly. The Proposed Spin-off will not affect the liabilities of the Group. Hence, the Proposed A-Share Listing will raise funds and further improve the structure of the Group's assets and liabilities.

### V. REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Directors consider that the Proposed Spin-off will be beneficial to both the Group and the Spin-off Group for the following reasons:

- (a) the Proposed Spin-off will allow the Company and its Shareholders an opportunity to realise their fair value of investment in the Spin-off Entity;
- (b) the Remaining Group and the Spin-off Group, operating in different and distinct business segments, are believed to have different growth paths and distinct business strategies. The Proposed Spin-off can (i) provide greater transparency and business coherence and clearer corporate structure to and among the Group and Spin-off Group; and (ii) allow the Spin-off Group to create a more defined business focus and efficient resource allocation, thus facilitating operation efficiency of the Spin-off Group and Remaining Group;
- (c) the Proposed A-Share Listing will offer a separate and independent fund-raising platform for the Spin-off Entity to fund its growth and expansion, enhancing the Spin-off Group's capabilities to conduct separate and independent fund-raising activities for its development of the Spin-off Group's business;
- (d) the Proposed Spin-off will potentially provide greater debt capacity due to greater clarity for credit profiling of the Company and the Spin-off Entity respectively by financial institutions that wish to extend credit or financing to the Company or the Spin-off Entity;
- (e) the Proposed Spin-off will enable the respective management of the Company and the Spin-off Entity to dedicate their time on building the core businesses of the Remaining Group and the Spin-off Group, respectively, to adopt different business strategies in order to better suit their respective businesses, thereby simplifying the decision-making process and increasing their responsiveness to market changes and opportunities specific to the business of the relevant group;
- (f) the Company will continue to be the beneficial owner of a majority of shares in the Spin-off Entity after completion of the Proposed Spin-off and to benefit from any enhanced value of the Spin-off Group through the Proposed Spin-off;
- (g) the Proposed Spin-off will increase the operational and financial transparency and improve the corporate governance of the Spin-off Group and provide investors, financial institutions and rating agencies with greater clarification on the business and financial status of the Remaining Group and the Spin-off Group on a stand-alone basis, and such improvements will help to build investor confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of both the Remaining Group and the Spin-off Group;
- (h) the Proposed Spin-off will enable the Spin-off Group to enhance its corporate profile, thereby increasing its ability to attract strategic investors, who can produce synergy for the Spin-off Group, for investment in and forming strategic partnerships with the Spin-off Group;

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## LETTER FROM THE BOARD

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- (i) the stock performance of the Spin-off Group can serve as a separate benchmark for the evaluation of the performance of the Spin-off Group which could in turn serve as an incentive for the management of the Spin-off Group to seek improvement and raise management and operating efficiency of the Spin-off Group on an ongoing basis; and
- (j) the separate listing of the Spin-off Entity will bring market-oriented valuation to the Spin-off Group. It is expected that the Spin-off Group will obtain a higher asset premium, thus the Proposed Spin-off will also create and unlock value of the shares of the Spin-off Entity held by the Company and its shareholders.

Based on the above, the Directors (including the independent non-executive Directors) are of the opinion that the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### VI. WAIVER IN RESPECT OF ASSURED ENTITLEMENT

Paragraph 3(f) of PN15 requires the Company to have due regard to the interests of its existing shareholders by providing them with an assured entitlement to the shares of the Spin-off Entity, either by way of a distribution in specie of existing shares of Spin-off Entity, or by way of a preferred application in the offering of existing or new shares of the Spin-off Entity (the “**Assured Entitlement**”).

As advised by the PRC legal advisers of the Company, A shares listed and traded on a stock exchange in the PRC can only be held by the following foreigners: (i) residents of Hong Kong, Macao and Taiwan working and residing in the PRC; (ii) foreign natural persons who work in the PRC and whose home country has established a regulatory cooperation mechanism with the CSRC; (iii) foreigners who have obtained permanent residence right in the PRC; (iv) qualified foreign strategic investors of the listed company; (v) qualified foreign institutional investor; (vi) renminbi qualified foreign institutional investor; (vii) foreign natural person investors that comply with requirements of awardee under the Administrative Measures for Share Awards of Listed Companies (Amended in 2018) (《上市公司股權激勵管理辦法》(2018修正)) if a listed company implements share awards to foreign natural person employees; and (viii) foreign investors that hold shares in the listing applicant prior to the initial public offering. Based on the Company’s register of members as at the Latest Practicable Date, it would appear that most of the Company’s existing Shareholders do not fall into this limited category of exception. As such, it would not be practicable or feasible to provide for any entitlement to its shareholders to subscribe for the shares of the Spin-off Entity.

Furthermore, the regulations of the CSRC and other relevant PRC laws and regulations have not provided existing shareholders with any overall arrangement for the assured entitlements. The eligibility of Shareholders to participate in offline placing as offline investors depends on whether valid quotations could be provided in accordance with the law. The Company cannot provide its existing Shareholders with the right to preferential offering in a fair manner in offline placing. In respect of online subscriptions, pursuant to the currently applicable PRC Stock Exchange rules for online subscriptions, after the total effective subscription amount is confirmed, all valid subscriptions will be arranged in chronological order and determine the successful subscriptions through lotting. Therefore, the Company cannot provide its existing Shareholders with the right to preferential offering in online subscriptions. As no preferential offering could be provided in both offline placings and online subscriptions, the existing Shareholders of the Company are not entitled to have an assured entitlement to shares in the Spin-off Entity.

As there are legal impediments to provide the existing Shareholders the Assured Entitlement, and such legal impediments cannot be overridden, it would be impractical and unduly burdensome for the Company to inquire into every existing Shareholder to ascertain each of their qualifications for the Assured Entitlement; and it would be unduly burdensome for the Company to seek minority Shareholders’ approval to waive the Assured Entitlement at a general meeting as the legal restriction could not be overridden even if the resolution was voted down.

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## LETTER FROM THE BOARD

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Having considered the above legal impediments for providing the Assured Entitlement and the reasons for and benefits of the Proposed Spin-off under the paragraph headed “Reasons for and benefits of the Proposed Spin-off” in this letter from the Board, the Board is of view that the Proposed Spin-off and the non-provision of the Assured Entitlement in relation to the Proposed Spin-off are fair and reasonable, and in the interest of the Company and the Shareholders as a whole. The Company has applied for, and the Stock Exchange has granted a waiver from strict compliance with the requirement under Paragraph 3(f) of PN15.

### VII. LISTING RULES IMPLICATIONS

It is expected that upon completion of the Proposed Spin-off and Proposed A-Share Listing, there will be a decrease of the equity interest held by the Company in the Spin-off Entity. Accordingly, the Proposed Spin-off and Proposed A-Share Listing constitutes a deemed disposal of the Group under Rule 14.29 of the Listing Rules. In addition, taking into account the estimated fundraising amount of the Proposed A-Share Listing, the highest applicable percentage ratio (calculated pursuant to Rule 14.07 of the Listing Rules) in respect of the Proposed Spin-off and Proposed A-Share Listing is expected to be more than 25% but less than 75%. Therefore, the Proposed Spin-off and Proposed A-Share Listing, if materialized, will constitute a major transaction of the Company and shall be subject to the reporting, announcement, circular and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

### VIII. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun, being all independent non-executive Directors, has been established to advise the Shareholders in respect of the terms of the Proposed Spin-off. The letter from the Independent Board Committee is set out on page IBC-1 of this circular.

The Company has also appointed Somerley Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off. The letter from Somerley Capital Limited is set out on pages IFA-1 to IFA-25 of this circular.

### IX. CONTROLLING SHAREHOLDERS’ WRITTEN APPROVAL

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders or their respective associates have any material interests in the Proposed Spin-off and Proposed A-Share Listing, and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Proposed Spin-off and Proposed A-Share Listing.

The Company has obtained the written shareholders’ approval on 21 April 2022 from a closely allied group of Shareholders (being the AIC Group) in respect of the 5,404,594,038 Shares they are interested in pursuant to a concert party agreement (representing approximately 57.93% of the total issued share capital of the Company as at the Latest Practicable Date) to approve the Proposed Spin-off in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules for approving the transactions abovementioned. Accordingly, no general meeting of the Company will be convened for the purpose of approving the Proposed Spin-off and Proposed A-Share Listing.



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## LETTER FROM THE BOARD

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In accordance with the requirements of paragraph 3(e)(4) of PN15:

- (a) the Independent Board Committee comprising all of the independent non-executive Directors has been established by the Company to consider the Proposed Spin-off and to advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole, taking into account the recommendation of the Independent Financial Adviser in that regard; and
- (b) Somerley Capital Limited has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

### X. RECOMMENDATION

Having considered the reasons set out herein, the Directors (including independent non-executive Directors, after taking into account the advice of the Independent Financial Adviser) consider that the Proposed Spin-off and Proposed A-Share Listing are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Although a general meeting will not be convened by the Company to approve the Proposed Spin-off and Proposed A-Share Listing, if such a general meeting were to be convened by the Company, the Board would recommend the Shareholders to vote in favour of the resolution to approve the Proposed Spin-off and Proposed A-Share Listing.

### XI. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

**Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, obtaining approvals from the relevant regulatory authorities, market conditions and other factors. There is no assurance that the Proposed Spin-off will take place or as to when it will take place. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in or investing in the Shares. The Company will make further announcement(s) in relation to the Proposed Spin-off in accordance with the requirements of the Listing Rules as and when appropriate.**

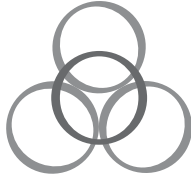
Yours faithfully,  
By order of the Board  
**Sihuan Pharmaceutical Holdings Group Ltd.**  
**Dr. Che Fengsheng**  
*Chairman and Executive Director*

Hong Kong, 5 May 2022

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

5 May 2022

*To the Shareholders,*

Dear Sir/Madam,

**PROPOSED DEEMED DISPOSAL AND MAJOR TRANSACTION  
IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF XUANZHU  
BIOPHARMACEUTICAL TECHNOLOGY**

We refer to the circular dated 5 May 2022 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise you on the fairness and reasonableness of the terms of the Proposed Spin-off, details of which are set out in the letter from the Board contained in the Circular. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Shareholders in this respect.

We wish to draw your attention to the letter from the Board on pages 3 to 13 of the Circular, which sets out information in connection with the Proposed Spin-off. We also wish to draw your attention to the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, which contains its advice in respect of the Proposed Spin-off, set out on pages IFA-1 to IFA-25 of the Circular.

Having considered the principal factors and reasons considered by, and the advice of, Somerley Capital Limited as set out in its letter of advice, we consider that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend that all Shareholders vote in favour of the resolution proposed in relation to the Proposed Spin-off if a general meeting were to be convened by the Company to consider such resolution.

Yours faithfully,

For and on behalf of the Independent Board Committee  
**Sihuan Pharmaceutical Holdings Group Ltd.**

**Mr. Patrick Sun**

**Mr. Tsang Wah Kwong**  
*Independent Non-executive Directors*

**Dr. Zhu Xun**



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from Somerley Capital Limited to the Independent Board Committee and the Shareholders in relation to the Proposed Spin-off, which has been prepared for the purpose of inclusion in this circular.*



### SOMERLEY CAPITAL LIMITED

20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

5 May 2022

*To: The Independent Board Committee and the Shareholders*

Dear Sirs,

### **PROPOSED DEEMED DISPOSAL AND MAJOR TRANSACTION IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF XUANZHU BIOPHARMACEUTICAL TECHNOLOGY**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off and the transactions contemplated therein. Details of the Proposed Spin-off are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to its shareholders dated 5 May 2022, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

As disclosed in the Company's announcement dated 27 March 2022, the Board unanimously agreed to spin off the shares of the Spin-off Entity for listing on the STAR Market of the Shanghai Stock Exchange. The Company currently directly holds approximately 62.39% of the total issued share capital of the Spin-off Entity. As a result of the Proposed Spin-off, the Company's interests in the Spin-off Entity will be reduced, but the Company will remain as the controlling shareholder of the Spin-off Entity after the completion of the Proposed Spin-off.

As stated in the Circular, pursuant to the relevant regulations in the PRC, the Spin-off Entity will offer not less than 10% of its enlarged issued share capital for subscription. The Company will make further announcement(s) once the information relating to the final offer price and expected net proceeds of the Proposed A-Share Listing is available.

It is expected that upon completion of the Proposed Spin-off and Proposed A-Share Listing, there will be a decrease of the equity interest held by the Company in the Spin-off Entity. Accordingly, the Proposed Spin-off and Proposed A-Share Listing constitutes a deemed disposal of the Group under Rule 14.29 of the Listing Rules. In addition, taking into account the estimated fundraising amount of the Proposed A-Share Listing, the highest applicable percentage ratio (calculated pursuant to Rule 14.07 of the Listing Rules) in

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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respect of the Proposed Spin-off and Proposed A-Share Listing is expected to be more than 25% but less than 75%. Therefore, the Proposed Spin-off and Proposed A-Share Listing, if materialized, will constitute a major transaction of the Company and shall be subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As stated in the letter from the Board of the Circular, no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Proposed Spin-off and Proposed A-Share Listing. The Company has obtained the written shareholders' approval on 21 April 2022 from a closely allied group of Shareholders (being the AIC Group) in respect of the 5,404,594,038 Shares they are interested in pursuant to a concert party agreement (representing approximately 57.93% of the total issued share capital of the Company as at the Latest Practicable Date) to approve the Proposed Spin-off in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules for approving the transactions abovementioned. Accordingly, no general meeting of the Company will be convened for the purpose of approving the Proposed Spin-off and Proposed A-Share Listing.

An Independent Board Committee comprising Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun, being all independent non-executive Directors, has been established to advise the Shareholders in respect of the terms of the Proposed Spin-off. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in the same regard.

We are not associated or connected with the Company, the Spin-off Entity or their respective core connected persons or associates and, accordingly, are considered eligible to give independent advice on the Proposed Spin-off. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Spin-off Entity or their respective core connected persons or associates.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed by the Directors and management of the Group (collectively, the **"Management"**), which we have assumed to be true, accurate and complete and not misleading as at the date of this letter. We have reviewed the published information on the Group and the Spin-off Entity including but not limited to, (i) annual reports of the Company for the years ended 31 December 2020 (the **"2020 Annual Report"**) and 31 December 2021 (the **"2021 Annual Report"**); and (ii) other information contained in the Circular. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Spin-off Entity, nor have we carried out any independent verification of the information supplied.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposed Spin-off, we have taken into account the following principal factors and reasons:

#### 1. Information on the Group

The Company is a limited liability company incorporated in Bermuda. The Shares have been listed on the Stock Exchange since 28 October 2010. Prior to 1 January 2021, the Group was engaged in one business segment which was the research and development (“**R&D**”) and the manufacture and sale of pharmaceutical products in China. During the six months ended 30 June 2021, the Group has successfully transformed itself into a medical aesthetic and pharmaceutical company and also changed the structure of its internal organisation in a manner which resulted in the change in reportable segments into three principal business segments, being generic medicine segment, medical aesthetic products and the innovative medicine and other medicine.

Details of the Group’s principal business segments as at 31 December 2021:-

| Segment  | Principal business   |
|--|--|
| Medical aesthetic products   | Sales and distribution of products used for medical aesthetical purposes, including filling, shaping, supporting, supplementing, optoelectronic device, body sculpturing, skin care and others to provide non- or minimally invasive medical aesthetics comprehensive solutions  |
| Innovative medicine and other medicine segment (“ <b>Innovative Drugs Segment</b> ”) | <p>R&amp;D, production and sales of Category 1 (<i>Note</i>) innovative diabetes drugs and other products for its Contract Development and Manufacturing Organisation (“<b>CDMO</b>”) and Contract Manufacturing Organisation (“<b>CMO</b>”) businesses.</p> <p>The Spin-off Entity forms part of the Innovative Drugs Segment and is an innovative drug R&amp;D company in the PRC with integrated R&amp;D capabilities from pre-clinical development to clinical development, registration and commercialisation for both small and large molecules. The Spin-off Entity is mainly engaged in the R&amp;D of innovative drugs, focusing on a number of therapeutic areas such as oncology, metabolism and digestion. As at the Latest Practicable Date, the majority of drugs currently under R&amp;D process held by the Spin-off Group are oncology related.</p> |
| Generic medicine   | Production and sales of generic drugs for medical indications such as cardiovascular and cerebrovascular, nervous system, digestive system, anti-infectives, diabetes (for non-Category 1 Drugs) and respiratory system.   |

*Note:*

Category 1 drugs and products (“**Category 1 Drugs**”) (i) under the Reform Plan for Registration Category of Chemical Medicine (《化學藥品註冊分類改革工作方案》) issued by National Medical Products Administration (“**NMPA**”) in March 2016, which usually have independent intellectual property rights and patents, emphasize novel chemical structure or new therapeutic use, and have not been reported in previous research literature or patents. According to the Reform Plan, Category 1 drugs refer to new drugs that have not been marketed anywhere in the world; and (ii) under the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Registration Category and Application Documents Requirements of Biological Products (《生物製品註冊分類及申報資料要求》) issued by the NMPA in June 2020, Category 1 therapeutic biological products or vaccines refer to those have not been marketed in the PRC or abroad. Drugs and therapeutic biological products or vaccines that had been accepted and registered as Category 1 will remain being categorised as Category 1 anytime after their registration by the NMPA.

Below is an analysis of results by segment as extracted from the 2020 Annual Report and the 2021 Annual Report:

| For the year ended<br>31 December<br>RMB '000                         | Contribution to Group's revenue<br>(sales to external customers) |                            |                            | Segment Results |                |                |
|---|--|----------------------------|----------------------------|-----------------|----------------|----------------|
|   | 2019   | 2020                       | 2021                       | 2019            | 2020           | 2021           |
| R&D, and the<br>manufacture and sale<br>of pharmaceutical<br>products | 2,878,318<br>(100%)  | N/A                        | N/A                        | N/A             | N/A            | N/A            |
| Medical aesthetic<br>products   | N/A  | 26,867<br>(1.1%)           | 398,954<br>(12.1%)         | N/A             | 23,191         | 248,472        |
| Innovative Drugs<br>Segment   | N/A  | 239,165<br>(9.7%)          | 294,175<br>(8.9%)          | N/A             | (472,240)      | (889,574)      |
| Generic medicine  | N/A  | 2,198,194<br>(89.2%)       | 2,598,141<br>(78.9%)       | N/A             | 1,374,647      | 1,307,001      |
| Total   | <u>2,878,318</u><br>(100%)                                       | <u>2,464,226</u><br>(100%) | <u>3,291,270</u><br>(100%) | N/A             | <u>925,598</u> | <u>665,899</u> |

In 2019, there was only one reported segment of the Group which was the research and development, and the manufacture and sale of pharmaceutical products in the PRC. As shown from the table above, the Innovative Drugs segment, which includes the Spin-off Entity contributed (i) around 9.7% and 8.9% of the total revenue of the Group; and (ii) is the Group's only loss-making business segment, for each of the two financial years ended 31 December 2021.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**(a) Historical financial performance of the Group**

Set out below is certain key financial information on the Group as extracted from the consolidated income statements and accompanying notes prepared in accordance with International Financial Reporting Standards for the years ended 31 December 2019 (“FY2019”), 2020 (“FY2020”) and 2021 (“FY2021”), details of which are set out in the 2020 Annual Report and the 2021 Annual Report:

|  | <b>2019</b>        | <b>2020</b>      | <b>2021</b>      |
|--|--------------------|------------------|------------------|
|  | <i>(Audited)</i>   | <i>(Audited)</i> | <i>(Audited)</i> |
|  | <i>RMB ‘000</i>    | <i>RMB ‘000</i>  | <i>RMB ‘000</i>  |
| <b>Continuing operations</b>   |                    |                  |                  |
| Revenue  | 2,878,318          | 2,464,226        | 3,291,270        |
| Cost of sales  | (588,987)          | (549,777)        | (842,754)        |
| <b>Gross profit</b>  | <b>2,289,331</b>   | <b>1,914,449</b> | <b>2,448,516</b> |
| Other income   | 213,404            | 172,560          | 192,263          |
| Other gains — net  | 402,177            | 249,619          | 254,878          |
| Gain on derecognition of subsidiaries  | —                  | 72,307           | —                |
| Gain on deemed disposal of a subsidiary  | —                  | —                | 59,228           |
| Impairment losses on goodwill, intangible assets, investments accounted for using the equity method of property, plant and equipment | (3,971,503)        | —                | (131,297)        |
| Distribution expenses  | (245,384)          | (368,792)        | (547,490)        |
| Administrative expenses  | (471,567)          | (489,784)        | (607,488)        |
| Research and development expenses  | (598,952)          | (729,157)        | (868,069)        |
| Other expenses   | (23,731)           | (34,077)         | (36,600)         |
| <b>Operating profit/(loss)</b>   | <b>(2,406,225)</b> | <b>787,125</b>   | <b>763,941</b>   |
| Finance expenses   | (4,714)            | (8,217)          | (119,311)        |
| Share of losses of investments accounted for using the equity method   | (12,016)           | (13,064)         | (158,581)        |
| <b>Profit/(loss) before tax from continuing operations</b>   | <b>(2,422,955)</b> | <b>765,844</b>   | <b>486,049</b>   |
| Income tax expense   | (290,388)          | (219,040)        | (253,279)        |
| <b>Profit/(loss) for the year from continuing operations</b>   | <b>(2,713,343)</b> | <b>546,804</b>   | <b>232,770</b>   |
| <b>Discontinued operations</b>   |                    |                  |                  |
| Loss for the year from discontinued operations   | (43,968)           | (34,917)         | —                |
| <b>Profit/(loss) for the year</b>  | <b>(2,757,311)</b> | <b>511,887</b>   | <b>232,770</b>   |
| <i>Attributable to:</i>  |                    |                  |                  |
| Owners of the Company  | (2,753,332)        | 473,382          | 416,509          |
| Non-controlling interests  | (3,979)            | 38,505           | (183,739)        |
|  | <b>(2,757,311)</b> | <b>511,887</b>   | <b>232,770</b>   |

\* financial performance relating to FY2019 is referenced from the 2020 Annual Report

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As discussed above, during the six months ended 30 June 2021, the Group successfully transformed itself into a medical aesthetic and pharmaceutical company and has also changed the structure of its internal organisation in a manner which resulted in the change in reportable segments into three principal business segments, being generic medicine segment, medical aesthetic products segment and the Innovative Drugs segment. Prior to that, the Group was only engaged in one reported segment of the Group which was the research and development, and the manufacture and sale of pharmaceutical products in the PRC.

Based on disclosures made in the 2021 Annual Report, total revenue of the Group was mainly attributable to contributions from the generic medicine segment, accounting for approximately 89.2% and 78.9% respectively for each of FY2020 and FY2021. We have also discussed and understand from the Management that the Group officially launched its medical aesthetic business in late 2020 after the approval of Letybo®, which is a product exclusively distributed by the Company and produced by a Korean biopharmaceutical company by the National Medical Products Administration of China. Revenue from the medical aesthetic products segment of the Group has since then represented approximately 1.1% and 12.1% of total revenue for each of the FY2020 and FY2021. As also discussed above under the section headed “1. Information on the Group”, revenue contribution from the Innovative Drugs Segment remained relatively insignificant, representing approximately 9.7% and 8.9% and reported continuous segment losses for each of FY2020 and FY2021 respectively.

The Group’s total revenue from continuing operations decreased by approximately 14.4% in FY2020 mainly due to comprehensive factors such as industry policies which led to the inclusion of certain products of the Group being included in the National Key Drug List for Monitoring and Prescription Control (Chemical and Biological Products) (“**Key Monitoring List**”) which would adversely impact sales price and volume for the affected products and impact of the COVID-19 pandemic. We note that revenue from continuing operations significantly improved in FY2021, reporting an increase of approximately 33.6% from approximately RMB2,464.2 million in FY2020 to approximately RMB3,291.3 million in FY2021. Such increase mainly came from the Group’s new business segment, the medical aesthetics segment, which reported a revenue of approximately RMB399.0 million, representing a year-on-year increase of approximately 1,383.3%, as a result of the official launch and marketing of the botulinum toxin Letybo®. As discussed in the 2021 Annual Report, the generic medicine segment also achieved a revenue of approximately RMB2,598.1 million, representing a year-on-year increase of approximately 18.2% which showed impacts from Key Monitoring List products on the generic medicine business of the Group have come to an end.

The Group’s gross profit decreased by approximately 16.4% in FY2020 mainly in line with the decline in revenue from continuing operations. Gross profit of the Group increased by approximately 27.9% from approximately RMB1,914.4 million in FY2020 to approximately RMB2,448.5 million in FY2021 was also mainly in line with the growth in total revenue.

Due to the Group’s continuous substantial investments made in the development of its R&D capacities, research and development expenses of the Group have been increasing and represented a substantial portion of the total operating expenses of the Group throughout the years. R&D expenses increased by around 21.7% for FY2020 and 19.1% for FY2021 as compared with those for the respective prior year, and accounted for approximately 44.7%, 45.0% and 42.1% of the total operating expenses for each of FY2019, FY2020 and FY2021.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group reported a profit attributable to owners of the Company of approximately RMB473.4 million in FY2020. This was mainly a result of the (i) non-recurrence of the (a) impairment provision of approximately RMB2,843.9 million against the value of goodwill which arose from acquisition of subsidiaries. Such impairment loss on goodwill was made based on the results of the impairment testing conducted by the Group in which the Group reassessed the recoverable amount of the cash-generating units to which the goodwill relates to in FY2019; and (b) impairment losses of intangible assets and property, plant and equipment of approximately RMB759.6 million and RMB276.5 million respectively, which were based on an assessment of the impact on prescription and procurement patterns after the promulgation of the National Catalog of the First Batch of Drugs under Close Monitoring of Rational Drug Use (for Chemical Medicines and Biological Products) in July 2019 and other impairment indications in FY2019; and (ii) decreases in revenue and gross profit reported for FY2020 as discussed above.

The Group reported a slight decrease of approximately 12.0% in profit attributable to owners of the Company in FY2021 as compared to FY2020 mainly due to (i) a one-off gain on disposal of the Group's interest in Jilin Zesheng Environmental Protection Engineering Co., Ltd. during the year; and (ii) the recognition of RMB131.3 million impairment loss on intangible assets due to Management decision to discontinue further development of the certain projects.

### (b) Financial position

Set out below is the consolidated statement of financial position of the Group as at 31 December 2020 and 2021 as extracted from the 2021 Annual Report:

|   | <b>As at 31 December</b> |                  |
|---|--------------------------|------------------|
|   | <i>(Audited)</i>         |                  |
|   | <b>2021</b>              | <b>2020</b>      |
|   | <i>RMB'000</i>           |                  |
| <b>Non-current assets</b>                             |                          |                  |
| Property, plant and equipment                         | 3,304,929                | 3,053,288        |
| Investment properties                                 | 224,269                  | 232,173          |
| Right-of-use assets                                   | 787,773                  | 787,973          |
| Goodwill  | 28,352                   | 12,312           |
| Intangible assets                                     | 595,916                  | 505,621          |
| Investments accounted for using the equity method     | 705,533                  | 1,070,387        |
| Financial assets at fair value through profit or loss | 266,999                  | 196,153          |
| Other non-current assets                              | 392,302                  | 367,869          |
| Deferred tax assets                                   | 303,464                  | 269,449          |
| Pledged deposits                                      | 144,631                  | 144,548          |
| <b>Total non-current assets</b>                       | <b>6,754,168</b>         | <b>6,639,773</b> |

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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|   | <b>As at 31 December</b> |                   |
|---|--------------------------|-------------------|
|   | <i>(Audited)</i>         |                   |
|   | <b>2021</b>              | <b>2020</b>       |
|   | <i>RMB'000</i>           |                   |
| <b>Current assets</b>                                 |                          |                   |
| Inventories   | 715,298                  | 495,889           |
| Trade and other receivables                           | 1,234,428                | 971,540           |
| Financial assets at fair value through profit or loss | 109,304                  | 332,683           |
| Cash and cash equivalents                             | 5,682,425                | 4,604,041         |
| <b>Total current assets</b>                           | <b>7,741,455</b>         | <b>6,404,153</b>  |
| <b>TOTAL ASSETS</b>                                   | <b>14,495,623</b>        | <b>13,043,926</b> |
| <b>Non-current liabilities</b>                        |                          |                   |
| Deferred tax liabilities                              | 222,390                  | 225,688           |
| Interest bearing bank borrowings                      | 813,216                  | 331,173           |
| Lease liabilities                                     | 31,463                   | 2,510             |
| Contract liabilities                                  | 9,969                    | —                 |
| Other non-current liabilities                         | 1,766,684                | 92,744            |
| <b>Total non-current liabilities</b>                  | <b>2,843,722</b>         | <b>652,115</b>    |
| <b>Current liabilities</b>                            |                          |                   |
| Trade and other payables                              | 1,971,289                | 1,830,161         |
| Interest-bearing bank borrowings                      | 200,000                  | 387,930           |
| Contract liabilities                                  | 206,425                  | 186,629           |
| Income tax payables                                   | 111,247                  | 22,445            |
| Lease liabilities                                     | 5,193                    | 1,441             |
| Other current liabilities                             | 7,681                    | 14,480            |
| <b>Total current liabilities</b>                      | <b>2,501,835</b>         | <b>2,443,086</b>  |
| <b>TOTAL LIABILITIES</b>                              | <b>5,345,557</b>         | <b>3,095,201</b>  |
| <b>Equity</b>   |                          |                   |
| <b>Equity attributable to owners of the Company</b>   |                          |                   |
| Share capital   | 77,058                   | 78,186            |
| Share premium   | 3,882,304                | 4,084,846         |
| Other reserves  | (221,437)                | 725,222           |
| Retained earnings                                     | 4,546,223                | 4,302,088         |
|   | 8,284,148                | 9,190,342         |
| <b>Non-controlling interests</b>                      | 865,918                  | 758,383           |
| <b>Total Equity</b>                                   | <b>9,150,066</b>         | <b>9,948,725</b>  |



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Non-current assets of the Group as at each of 31 December 2020 and 2021 mainly comprised of property, plant and equipment, investments accounted for using equity method, right-of-use assets and intangible assets. The balance for total non-current assets as at 31 December 2021 is comparable to the balance as at 31 December 2020.

Total current assets of the Group as at each of 31 December 2020 and 2021 mainly comprised of cash and cash equivalents and trade and other receivables. The balance as at 31 December 2021 increased by approximately 20.9% mainly as a result of increases in balance for cash and cash equivalents.

Balance for total non-current liabilities of the Group increased by approximately 336.1% as at 31 December 2021 as compared to the balance as at 31 December 2020 and such increase was mainly a result of increase in the carrying value for other non-current liabilities from approximately RMB92.7 million as at 31 December 2020 to approximately RMB1,766.7 million as at 31 December 2021. As disclosed in the 2021 Annual Report, the increase was attributable to redemption liabilities on a subsidiary's shares of approximately RMB1,662.8 million as compared to nil for 31 December 2020. With reference to the 2021 Annual Report, we understand shareholder agreements with certain subsidiaries' non-controlling shareholders were entered during the year ended 31 December 2021, capital contribution and related shares being transferred shall be redeemable by the Group upon the occurrence of certain contingent events which cannot be controlled by the Group. The redemption obligations give rise to financial liabilities, which are measured at the net present value of the redemption amount.

Total current liabilities of the Group as at each of 31 December 2021 and 31 December 2020 mainly comprised of trade and other payables. The balance for total current liabilities as at 31 December 2021 is comparable to that of 31 December 2020.

Equity attributable to owners of the Company as at 31 December 2021 and 31 December 2020 was approximately RMB8,284.1 million and RMB9,190.3 million respectively. Based on the total number of issued Shares of 9,329,999,206 as at the date of announcement, the net asset value attributable to owners of the Company, was approximately RMB0.89 as at 31 December 2021.

## **2. Information on the Spin-off Group**

As discussed under the section headed "1. Information on the Group" above, the Spin-off Group forms part of the Group's Innovative Drugs segment.

As disclosed in the letter from the Board of the Circular, the Spin-off Entity is a company established in the PRC with limited liability on 5 September 2018. It is an innovative drug R&D subsidiary of the Group with integrated R&D capabilities from pre-clinical development to clinical development, registration and commercialisation for both small and large molecules. The Spin-off Entity mainly engages in the R&D of innovative drugs, focusing on a number of therapeutic areas such as oncology, metabolism and digestion.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the product pipeline of the Spin-off Group includes eight, two and one drugs for oncology, metabolism and digestion, respectively. During 2021, the New Drug Application of Anaprazole Sodium developed by the Spin-off Group has been accepted, and Birociclib as well as other products have been approved to enter clinical phase III. R&D has made rapid progress. Set out below is the key pipeline of R&D of the Spin-off Group:

| Therapeutic Area     |               | Target                        | Drug Name                    | Indications  | Pre-Clinical |      | Clinical |          |           |
|----------------------|---------------|-------------------------------|------------------------------|--|--------------|------|----------|----------|-----------|
|                      |               |                               |                              |  | LI/LO*       | IND* | Phase I  | Phase II | Phase III |
| Tumor                | Breast cancer | CDK4/6 Inhibitor              | Birociclib                   | Breast cancer (HR+/HER2- / End-line)   |              |      |          |          |           |
|                      |               |                               |                              | Breast cancer (HR+/HER2- / Second-line treatment with fulvestrant)                                       |              |      |          |          |           |
|                      |               |                               |                              | Breast cancer (HR+/HER2- / first-line treatment with AI)   |              |      |          |          |           |
|                      |               | HER2 Bispecific antibody      | KM-257                       | HER2 high expression tumors (Breast cancer, other solid tumors such as cholangioma and herceptin)        |              |      |          |          |           |
|                      |               | HER2 Bispecific antibody -ADC | KM-501 (Original KM-254)     | HER2 low to medium expression (Breast cancer, other solid tumors such as gastric cancer and lung cancer) |              |      |          |          |           |
|                      | NSCLC         | SERD                          | Fulvestrant                  | HR+ and/or ER+ breast cancer   |              |      |          |          |           |
|                      |               | ALK/ROS1 Inhibitor            | ZXP-3621                     | NSCLC (End-line)   |              |      |          |          |           |
|                      |               |                               |                              | NSCLC (first-line)   |              |      |          |          |           |
|                      | Tumor         | AXL                           | ZXB-0004                     | NSCLC  |              |      |          |          |           |
|                      |               | NTRK/ROS1 Inhibitor           | XZP-5955                     | Locally advanced/metastatic solid tumors with NTRK/ROS1 fusion and mutation                              |              |      |          |          |           |
| Endocrine metabolism | NASH          | FXR receptor agonist          | XZP-5610                     | NASH (Non-alcoholic Steatohepatitis)   |              |      |          |          |           |
|                      |               |                               |                              | PBC (primary biliary cholangitis)  |              |      |          |          |           |
|                      |               | Undisclosed                   | XZP-6019                     | NAFLD/NASH   |              |      |          |          |           |
| Digestion            | Peptic ulcer  | PPI (Proton Pump Inhibitor)   | Anaprazole sodium (KBP-3571) | DU (Duodenal ulcer)  |              |      |          |          |           |

\* LI/LO: Lead Identification/Lead Optimisation

IND: Investigational New Drug

As at the Latest Practicable Date, the Spin-off Entity is an indirect non-wholly owned subsidiary of the Company and held as to approximately 62.3892%, 27.6738% and 9.9370% by the Company, external investors of the Spin-off Group and participants of the employee incentive scheme of the Spin-off Group, respectively.

The unaudited consolidated financial information of the Spin-off Group for the two financial years ended 31 December 2020 and 2021 is as follows:

|                       | RMB'000                        |           |
|-----------------------|--------------------------------|-----------|
|                       | For the year ended 31 December |           |
|                       | 2020                           | 2021      |
| Revenue               | —                              | —         |
| Net (loss) before tax | (120,260)                      | (470,392) |
| Net (loss) after tax  | (120,854)                      | (470,392) |

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have discussed and understood from the Company that the increase in net loss before tax for year ended 31 December 2021 by approximately 291.1% was mainly because of the combined effects from (i) higher R&D expenses of approximately RMB360.3 million; and (ii) impairment relating to certain products currently under development, both in 2021.

As at 31 December 2021, total asset of the Spin-off Group amounted to approximately RMB1,850.8 million, which comprised mainly cash and cash equivalents of approximately RMB1,125.2 million and capitalised R&D expenses relating to products under more advanced stages of development of approximately RMB242.4 million. Total liabilities of the Spin-off Group were RMB103.0 million at 31 December 2021, which comprised mainly salary payables of approximately RMB24.6 million and lease liabilities of approximately RMB29.4 million. The unaudited consolidated net asset value of Spin-off Group as at 31 December 2021 was approximately RMB1,747,748,063.52.

As provided by the Management, as at 31 December 2021, there was no amount of outstanding loans owed by the Spin-off Group to the Remaining Group and as at the Latest Practicable Date, there were no other loans or other forms of financial assistance provided by the Remaining Group to the Spin-off Group and the Remaining Group had not provided any guarantee or security for loans which were taken out by the Spin-off Group.

### **3. Reasons for and benefits of the Proposed Spin-off**

As stated in the letter from the Board of the Circular, the Directors consider that the Proposed Spin-off will be beneficial to both the Group and the Spin-off Group for the following reasons:

- (a) the Proposed Spin-off will allow the Company and its Shareholders an opportunity to realise their fair value of investment in the Spin-off Entity;
- (b) the Remaining Group and the Spin-off Group, operating in different and distinct business segments, are believed to have different growth paths and distinct business strategies. The Proposed Spin-off can (i) provide greater transparency and business coherence and clearer corporate structure to and among the Group and Spin-off Group; and (ii) allows the Spin-off Group to create a more defined business focus and efficient resource allocation, thus facilitating operation efficiency of the Spin-off Group and Remaining Group;
- (c) the Proposed A-Share Listing will offer a separate and independent fund-raising platform for the Spin-off Entity to fund its growth and expansion, enhancing the Spin-off Group's capabilities to conduct separate and independent fund-raising activities for its development of the Spin-off Group's business;
- (d) the Proposed Spin-off will potentially provide greater debt capacity due to greater clarity for credit profiling of the Company and the Spin-off Entity respectively by financial institutions that wish to extend credit or financing to the Company or the Spin-off Entity;
- (e) the Proposed Spin-off will enable the respective management of the Company and the Spin-off Entity to dedicate their time on building the core businesses of the Remaining Group and the Spin-off Group, respectively, to adopt different business strategies in order to better suit their respective businesses, thereby simplifying the decision-making process and increasing their responsiveness to market changes and opportunities specific to the business of the relevant group;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (f) the Company will continue to be the beneficial owner of a majority of shares in the Spin-off Entity after completion of the Proposed Spin-off and to benefit from any enhanced value of the Spin-off Group through the Proposed Spin-off;
- (g) the Proposed Spin-off will increase the operational and financial transparency and improve the corporate governance of the Spin-off Group and provide investors, financial institutions and rating agencies with greater clarification on the business and financial status of the Remaining Group and the Spin-off Group on a stand-alone basis, and such improvements will help to build investor confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of both the Remaining Group and the Spin-off Group;
- (h) the Proposed Spin-off will enable the Spin-off Group to enhance its corporate profile, thereby increasing its ability to attract strategic investors, who can produce synergy for the Spin-off Group, for investment in and forming strategic partnerships with the Spin-off Group;
- (i) the stock performance of the Spin-off Group can serve as a separate benchmark for the evaluation of the performance of the Spin-off Group which could in turn serve as an incentive for the management of the Spin-off Group to seek improvement and raise management and operating efficiency of the Spin-off Group on an ongoing basis; and
- (j) the separate listing of the Spin-off Entity will bring market-oriented valuation to the Spin-off Group. It is expected that the Spin-off Group will obtain a higher asset premium, thus the Proposed Spin-off will also create and unlock value of the shares of the Spin-off Entity held by the Company and its shareholders.

In our opinion, given the differences in the businesses carried out by the Spin-off Group and the Remaining Group, we concur with the view of the Management that the Remaining Group and Spin-off Group have different growth paths and business strategies and thus the Proposed Spin-off can provide greater transparency and delineation between the two entities, allowing each to create a more defined business focus leading to more efficient resource allocation. We further agree and consider the Proposed Spin-off would promote an opportunity for both the Spin-off Group and the Remaining Group to enhance its corporate profile and thereby each attract an appropriate investor base including that of strategic investors who may be able to provide synergic opportunities by way of strategic partnerships. In addition, we agree and consider the Proposed Spin-off will allow the Spin-off Group to gain access to equity and debt capital markets independently and the Proposed Spin-off will potentially provide greater fund-raising capacity for both the Spin-off Group and the Remaining Group due to greater clarity for credit profiling by financial institutions that wish to extend credit or financing to the Remaining Group or the Spin-off Entity.

In particular given, as further discussed in the sections below, the terms of the Proposed Spin-off being fair and reasonable, and the generally positive financial effects of the Proposed Spin-off on the Group, we concur with the view of the Management that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

**4. Conditions of the Proposed Spin-off**

As set out in the letter from the Board of the Circular, the Proposed Spin-off will be conditional on, among others, the following:

- (a) approval of the Proposed Spin-off by the Shareholders;
- (b) approval of the Proposed A-Share Listing by the board of directors and the shareholders of the Spin-off Entity;
- (c) approval of the Proposed Spin-off by the Listing Committee of the Stock Exchange;
- (d) the approval and/or registration of the PRC Stock Exchange and the CSRC in relation to the Proposed A-Share Listing; and
- (e) any other PRC regulatory approvals required by the relevant laws and regulations.

As at the Latest Practicable Date, conditions (a), (b) and (c) have been fulfilled. None of the conditions is waivable. If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and the Company will make relevant disclosure as soon as practicable.

Shareholders and potential investors should be aware that there is no assurance that the Proposed Spin-off will take place, and, if so, when it will take place. Shareholders and potential investors should exercise caution when dealing in or investing in the securities of the Company.

**5. The Proposed Spin-off**

***(a) Structure of the Proposed Spin-off***

As disclosed in the letter from the Board of the Circular, the Proposed Spin-off involves the spin-off of the Spin-off Entity and its separate listing on the PRC Stock Exchange by way of an initial public offering. For the purpose of the Proposed Spin-off, the Company has submitted a proposal on the Proposed Spin-off to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off under PN15.

Subject to approval by the relevant PRC regulators, it is currently proposed that the Spin-off Entity will issue A-shares on the PRC Stock Exchange by way of an initial public offering to public investors in the market, or other methods as requested or agreed by the CSRC. The actual number of shares to be offered by the Spin-off Entity will depend on the market conditions and the relevant rules and regulations of the CSRC as amended from time to time. It is expected that immediately upon completion of the Proposed Spin-off, the Spin-off entity will remain as an indirect subsidiary of the Company and its financial results will continue to be consolidated into the accounts of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

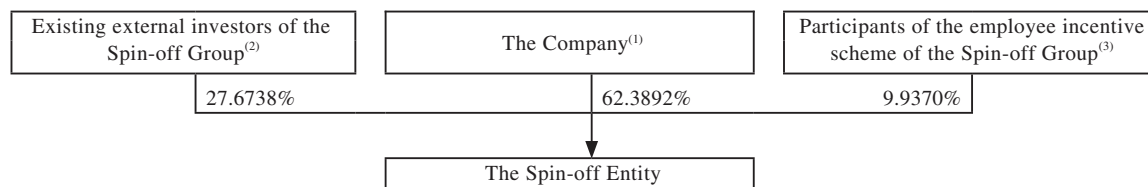
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We understand that the Sponsor, together with the Hebei Regulatory Bureau of CSRC, commenced the pre-listing tutorial with the Spin-off Entity in December 2021 in accordance with the relevant PRC regulatory and legal requirements, and the pre-listing tutorial is expected to be completed in May 2022. The Spin-off Entity intends to submit the application for the Proposed A-Share Listing to the PRC Stock Exchange in May 2022. Based on the current proposed timetable, the Proposed Spin-off is expected to be completed in the fourth quarter of 2022. As at the Latest Practicable Date, no formal application for the Proposed A-Share Listing has been filed with the relevant regulatory authorities in the PRC.

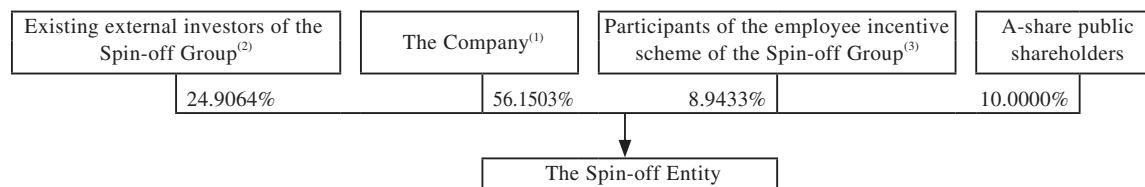
As also disclosed in the letter from the Board of the Circular, the exact offer price and the expected size of the Proposed A-Share Listing are not determined at this stage, the total proceeds expected to be raised from the Proposed A-Share Listing cannot be determined as at the Latest Practicable Date. Nevertheless, we understand the anticipated proceeds to be raised from the Proposed A-Share Listing will be from RMB1.2 billion to RMB3.5 billion. Pursuant to the relevant regulations in the PRC, the Spin-off Entity will offer not less than 10% of its enlarged issued share capital for subscription. We also understand from the Management that the Spin-off Entity would offer no more than 25% of its enlarged issued share capital for subscription.

In this respect, based on the current plan of the Proposed Spin-off, the simplified shareholding structure of the Spin-off Entity as at the Latest Practicable Date and immediately upon completion of the Proposed Spin-off are illustrated below:

*Shareholding structure of the Spin-off Entity as at the Latest Practicable Date:*

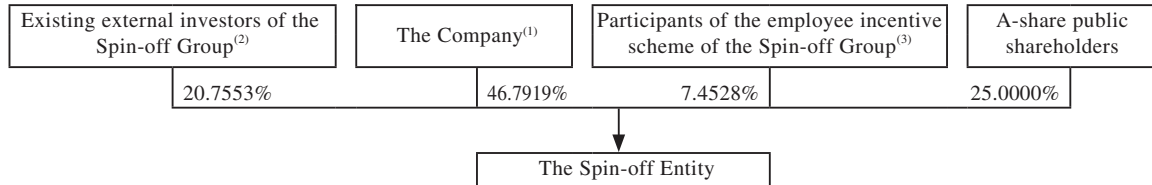


*Shareholding structure of the Spin-off Entity immediately upon completion of the Proposed Spin-off (assuming the offering size represents 10% of the enlarged issued share capital of the Spin-off Entity):*



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Shareholding structure of the Spin-off Entity immediately upon completion of the Proposed Spin-off (assuming the offering size represents approximately 25.0% of the enlarged issued share capital of the Spin-off Entity):*



*Notes:*

1. The Company's interest in the Spin-off Entity is held indirectly through the Company's wholly-owned subsidiaries.
2. This includes 18 external investors that participated in the historic equity fundraising activities of the Spin-off Entity, including Jingjinji Industry Synergistic Development Investment Fund (Limited Partnership)\* (京津冀產業協同發展投資基金(有限合夥)), Xianjin Manufacture Industry Investment Fund Second Phase (Limited Partnership)\* (先進製造產業投資基金二期(有限合夥)), Shijiazhuang Keshe Investment Centre (Limited Partnership)\* (石家莊科碩投資中心(有限合夥)), Beijing Tonghe Yinxing Innovative Asset Management Centre (Limited Partnership)\* (北京同合銀杏創新資產管理中心(有限合夥)), Beijing SL Pharmaceutical Co., Ltd.\* (北京雙鷺藥業股份有限公司), Sunshine Life Insurance Co., Ltd.\* (陽光人壽保險股份有限公司), Jinjiang Xuanhong No. 3 Equity Investment Partnership (Limited Partnership)\* (晉江軒弘三號股權投資合夥企業(有限合夥)), Shaanxi Jinou Investment Fund Partnership (Limited Partnership)\* (陝西金甌投資基金合夥企業(有限合夥)), Jiangmen Yifeng Yihe Venture Capital Partnership (Limited Partnership)\* (江門市倚鋒邑和創業投資合夥企業(有限合夥)), Hebeizhongjicai Industrial Advancement Equity Investment Fund (Limited Partnership)\* (河北中冀財工業升級股權投資基金合夥企業(有限合夥)), Shanghai Yunxin Venture Capital Partnership (Limited Partnership)\* (上海雲錚創業投資合夥企業(有限合夥)), Shanghai Chuangfengxinwen Venture Capital Partnership (Limited Partnership)\* (上海創豐昕文創業投資合夥企業(有限合夥)), Suzhou Taijin No. 1 Equity Investment Partnership (Limited Partnership)\* (蘇州太金壹號股權投資合夥企業(有限合夥)), BOC Capital Investment Holding Co., Ltd.\* (中銀資本投資控股有限公司), Tianjin Baichuan Win Win Enterprise Management Partnership (Limited Partnership)\* (天津百川共贏企業管理合夥企業(有限合夥)), Shenzhen Denuowei No. 1 Investment Partnership (Limited Partnership)\* (深圳市德諾維一號投資合夥企業(有限合夥)), Yantai Boyuan Development Investment Partnership (Limited Partnership)\* (煙台伯元發展投資合夥企業(有限合夥)), Wanxin Qifu (Shenzhen) Venture Capital Centre (Limited Partnership)\* (灣信啟富(深圳)創業投資中心(有限合夥)).
3. The participants of the employee incentive scheme of the Spin-off Entity comprises of SHIH Cheng-Kon, LI Jia Kui, XU Yanjun and 10 entities established or incorporated in the PRC with limited liability and owned by certain specified employees of the Spin-off Group.

As illustrated above, the maximum dilution of shareholding percentage of the Company in the Spin-off Entity will be from 62.3892% as at the Latest Practicable Date to 46.7919%. Further details regarding possible dilution are discussed in the paragraph headed "8. Dilution and Disposal of interest in the Spin-off Group" in this letter below.



***(b) Offer price***

As disclosed above, the exact offer price of the Proposed A-Share Listing is not determined at this stage and as also disclosed in the letter from the Board of the Circular, the final offer price of shares of the Spin-off Entity to be offered under the Proposed A-Share Listing is subject to market conditions close to the launch of the Proposed A-Share Listing and will also be determined with reference to the then responses to the price consultation and other method(s) to be agreed between the Spin-off Entity and the lead underwriter. In determining the offer price, the Spin-off Entity will take into account, among other things, (i) its historical operating results and financial performance; (ii) its business prospects; (iii) its expansion plan and capital needs; (iv) the responses to price consultation to the Proposed A-Share Listing in the book-building process; (v) the A-share market performance around the offering date; and (vi) an appropriate valuation level comparing to the comparable companies listed in the PRC in similar industries of the Spin-off Entity. As stated in the letter from the Board of the Circular, the Spin-off Entity shall comply with the rules and regulations of the PRC Stock Exchange (if any) in the determination of the final offering price and shall make relevant disclosures on the PRC Stock Exchange accordingly.

***(c) Intended use of proceeds***

The Spin-off Entity intends to apply the net proceeds from the Proposed A-Share Listing (after deducting related expenses) in the following manner:

- (i) approximately 67% will be used for R&D of the Spin-off Group's innovative drugs, including the application and commencement of clinical trials and other relevant R&D procedures for six of its key innovative drugs targeting oncology;
- (ii) approximately 13% will be used for construction of the Spin-off Group's headquarters and the industrialisation of the Spin-off Group's innovative drugs, which mainly includes costs for construction, acquisition of equipment, installation, engineering and other related costs; and
- (iii) approximately 20% will be used for general working capital, including the sales and marketing and commercialisation of the Spin-off Group's key products, and the R&D of other new innovative drugs to be included in the pipeline.

As disclosed in the letter from the Board of the Circular, the intends uses of proceeds are determined based on the current business and expansion plan of the Spin-off Group and thereby the capital and financing needs, taking into account, among others, (i) the core business of the Spin-off Group is the R&D of innovative drugs and the majority of the proceeds from the Proposed A-Share Listing shall be used for the business expansion of the R&D on a number of therapeutic areas such as oncology, metabolism and digestion, and among the current key product pipeline, two products are in stage III clinical trial, one product in stage I clinical trial, and one product each in preparation, applied, or obtained approval for clinical trials, respectively as at the Latest Practicable Date, and are expected to complete in around 2025 and 2026; (ii) the inherent need for the construction of a production facility for the industrialisation and production of the Spin-off Group's products, in which the planning and design has completed as at the Latest Practicable Date and the construction is expected to complete in 2026; and (iii) the commercialisation efforts required for sales and marketing of the Spin-off Group's products in the future.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We further note from letter from the Board in the Circular, based on the estimation of the board of directors of the Spin-off Entity, the capital required for the abovementioned purposes (i), (ii) and (iii) are approximately RMB1,659.9 million, RMB320.0 million and RMB490.1 million, respectively. Any shortfall between the required capital and the proceeds allocated to such purpose is expected to be funded by the funds previously raised by the Spin-off Group, its own capital or other financing means. On the other hand, if the proceeds from the Proposed A-Share Listing exceed the above funding requirements, the surplus funds will be used for general working capital of the Spin-off Group to the extent permitted by applicable laws and regulations. If the proceeds of the Proposed A-Share Listing are not immediately applied to the above purposes, they will be deposited into short-term interest-bearing accounts at licensed commercial banks or other authorized financial institutions. In addition, if any part of the Spin-off Group's plan does not proceed as planned that would render any of its plans not viable, or the occurrence of force majeure events, the Spin-off Group will carefully evaluate the situation and may reallocate the proceeds from the Proposed A-Share Listing in accordance with the rules and regulations and comply with the disclosure requirements of the PRC Stock Exchange.

As also stated in the letter from the Board of the Circular, it is currently expected that the proceeds to be raised through the Proposed A-Share Listing will be not less than RMB1.2 billion. However, in the event that the offering shares for subscription is less than 10% of the enlarged share capital of the Spin-off Entity or the market value of the Spin-off Entity after the issuance will be less than RMB4.0 billion, the listing eligibility of the Spin-off Group pursuant to the current applicable PRC Stock Exchange rules will not be met and the Proposed A-Share Listing shall not proceed. Additionally, if the Proposed A-Share Listing is postponed, terminated or lapsed, the Spin-off Entity will use its best endeavours to finance the aforesaid projects with its funds or funds to be raised by other financing method(s), which may include, among other things, bank borrowings; and the gearing ratios of the Company and the Spin-off Entity may be affected if debt financing is used to fund these projects.

Given the funds raised from the Proposed A-Share Listing will, among others, be predominately applied towards facilitating further development of the Spin-off Group's business including, but not limited to funding the R&D of the Spin-off Group's drugs and given the Spin-off Group will remain as a subsidiary of the Company after the Proposed A-Share Listing, we consider benefits derived from the Proposed A-Share Listing of the Spin-off Group would also be shared by the Company and the Shareholders as a whole. As such, together with the reasons as outlined under the section headed "3. Reasons for and benefits of the Proposed Spin-off", we would consider the intended use of proceeds to be in the interests of the Company and its Shareholders.

### 6. Evaluation of the pricing of the deemed disposal

For comparison purposes, we have reviewed and identified seven companies (the "**Comparable Companies**") which (i) are listed on the Shanghai Stock Exchange; (ii) are principally engaged in R&D of drugs and pharmaceutical products with their respective R&D expenses representing over 60% of their respective total operating expenses in their latest published financial year; and (iii) have reported net loss attributable to shareholders of the company based on the latest published financial statements, based on information available on Bloomberg and their respective published financial statements.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Though the Comparable Companies are not the same in all aspects as the Spin-off Group, we consider that the analysis on the Comparable Companies can provide a meaningful reference to the Shareholders given that the Comparable Companies, similar to the Spin-off Group, are all listed on the Shanghai Stock Exchange, are primarily involved in the R&D of drug and pharmaceutical products and are loss-making based on the latest financial published financial statements.

Set out in the table below are the details of the Comparable Companies and their respective (i) market capitalisation as at the Latest Practicable Date; (ii) the total R&D expenses recognised in the latest full year profit and loss statement; and (iii) the price-to-R&D expenses (“**PR**”) multiples.

The PR multiple, which is commonly used in valuing research based businesses such as biopharmaceutical companies which are investing significantly in research and development, is adopted for the purpose of this comparison given that the principal assets held by the Spin-off Group, being the drugs and therapeutic treatment products are still in the research and development stage and the Spin-off Group is still a pre-revenue biotech firm.

| Stock code | Company name                               | Market<br>capitalisation<br><i>RMB</i><br>( <i>Note 1</i> ) | R&D expense<br><i>RMB</i><br>( <i>Note 2</i> ) | PR multiple<br><i>times</i><br>( <i>Notes 3 &amp; 5</i> ) |
|------------|--|---|--|---|
| 688062.SH  | Mabwell (Shanghai) Bioscience Co., Ltd.    | 5,806,188,000   | 622,514,864                                    | 9.33  |
| 688266.SH  | Suzhou Zelgen Biopharmaceuticals Co., Ltd. | 5,928,000,000   | 509,394,275                                    | 11.64   |
| 688177.SH  | Bio-Thera Solutions, Ltd.                  | 8,103,545,600   | 562,654,593                                    | 14.40   |
| 688192.SH  | Dizal (Jiangsu) Pharmaceutical Co., Ltd.   | 7,978,574,789   | 587,596,837                                    | 13.58   |
| 688520.SH  | Sinocelltech Group Limited                 | 18,880,509,916  | 732,662,078                                    | 25.77   |
| 688197.SH  | Shouyao Holdings (Beijing) Co., LTD.       | 2,773,615,747   | 156,840,885                                    | 17.68   |
| 688176.SH  | Jiangsu Yahong Meditech Co., Ltd.          | 6,258,600,000   | 190,744,102                                    | 32.81   |
|            |  |   | <b>Average</b>                                 | <b>17.89</b>  |
|            |  |   | <b>Median</b>                                  | <b>14.40</b>  |
|            |  |   | <b>Maximum</b>                                 | <b>32.81</b>  |
|            |  |   | <b>Minimum</b>                                 | <b>9.33</b>   |
|            |  | <b>Spin-off Group:</b>                                      |  |   |
|            |  | <i>Based on the</i>   |  |   |
|            |  | <i>maximum possible</i>                                     |  |   |
|            |  | <i>valuation</i>  |  | <b>97.14</b>  |
|            |  | <i>(Note 4)</i>   |  |   |
|            |  | <i>Based on the</i>   |  |   |
|            |  | <i>minimum possible</i>                                     |  |   |
|            |  | <i>valuation</i>  |  | <b>13.32</b>  |
|            |  | <i>(Note 4)</i>   |  |   |

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Source: Bloomberg and respective latest published financial reports of the Comparable Companies*

*Notes:*

- 1) The market capitalisation of the Comparable Companies is calculated based on their respective closing price per share and number of issued shares as at the Latest Practicable Date.
- 2) The total R&D expenses incurred are extracted from the respective latest financial reports of the Comparable Companies.
- 3) PR multiple of the Comparable Companies are calculated based on the total R&D expenses incurred based on the latest published financial reports of the Comparable companies and the respective Comparable Companies' market capitalisation as at the Latest Practicable Date.
- 4) Maximum possible valuation of the Spin-off Group is estimated based on assumptions of the issue of the minimum 10% of the enlarged share capital of the Spin-off Entity to raise the maximum expected proceeds of RMB3.5 billion, while the minimum possible valuation of the Spin-off Group is estimated based on assumptions of the issue of the maximum 25% of the enlarged share capital of the Spin-off Entity to raise the minimum expected proceeds of RMB1.2 billion.
- 5) The implied PR multiple of the Spin-off Group is calculated based on the maximum/minimum possible valuation of the Spin-off Group and the total R&D expenses recognised for FY2021.

As shown in the table above, PR multiples of the Comparable Companies are in the range from around 9.33 times to 32.81 times, with an average of around 17.89 times and a median of around 14.40 times. The implied PR multiple of the Spin-off Group range from approximately 97.14 times in case of maximum possible valuation, to approximately 13.32 times in case of minimum possible valuation in the Proposed A-Share Listing. We note the PR multiple of the Spin-off Group based on the maximum possible valuation is greater than the PR multiple range derived from the Comparable Companies. We consider this, if materialised, to be favourable because the Proposed Spin-off is essentially a deemed disposal of the Company and should the maximum possible valuation be realised, the Company would essentially be “disposing” its interests in the Spin-off Group for a higher price as compared to peers in the market. We note the low-end of the implied PR multiple of the Spin-off Group, is also higher than the minimum PR multiple of the Comparable Companies of around 9.33 times.

Given that the range of the implied PR multiple of the Spin-off Group respectively is comparable to the corresponding ranges of PR multiples of the Comparable Companies and the benefits to be brought to the Group as a result of the Proposed Spin-off, details of which are set out in the section headed “3. Reasons for and benefits of the Proposed Spin-off” above, we consider the basis for determining the offer price under the Proposed A-Share Listing to be fair and reasonable.

Shareholders should note that the calculation of the implied PR multiple of the Spin-off Entity and the comparison above is for illustrative purposes only. The actual amount of proceeds to be raised from the Proposed A-Share Listing and the actual PR multiple of the Spin-off Entity will be subject to, including but not limited to, the share market conditions in Mainland China at the time of the Proposed A-Share Listing and the financial performance of the Spin-off Group before its listing.

**7. Financial impact of the Proposed Spin-off on the Group**

As discussed in the section headed “IV. Financial effects of the Proposed Spin-off on the Group” in the letter from the Board of the Circular, it is expected that immediately upon completion of the Proposed Spin-off, the Company’s indirect equity interests in the Spin-off Entity may decrease to 46.7919% but having discussed with its auditors, the Company believes that it will be able to continue control the Spin-off Group, in which the Spin-off Entity will remain as a subsidiary of the Company and the financial results of the Spin-off Group will continue to be consolidated into the accounts of the Company in accordance with the requirements of the International Financial Reporting Standards based on the following reasons:

- (a) upon completion of the Proposed Spin-off, the Company will continue to remain as the single largest shareholder of the Spin-off Group and its voting rights in the Spin-off Entity (being no less than 46.7919%) is expected to remain far above and far exceed that of any other shareholders, as (i) the voting rights of the second-largest shareholder in the Spin-off Entity is expected not to exceed 10%; and (ii) the Spin-off Entity has a diverse base of minority shareholders, counting 31 (excluding the Company) as at the Latest Practicable Date, and is expected to further enlarge and disperse as a result of the Proposed A-share Listing on the PRC Stock Exchange; and
- (b) noting the general attendance level in general meetings of PRC-listed issuers, it is common that not all shareholders attend the general meetings of PRC-listed issuers and therefore, it is reasonably expected that the Company’s voting rights at any general meeting of the Spin-off Group (upon completion of the Proposed Spin-off and Proposed A-share Listing) will exceed 50% of the voting rights of all attending shareholders of the Spin-off Entity.

Based on the current structure of the Proposed Spin-off and assumptions including but not limited to, that the results and financial position of the Spin-off Group would continue to be consolidated into the accounts of the Company, the expected financial impact of the Proposed Spin-off on the Group is, as stated in the section headed “IV. Financial effects of the Proposed Spin-off on the Group” in the letter from the Board of the Circular:

***Earnings***

As discussed in the letter from the Board of the Circular, the Proposed Spin-off will be regarded as a transaction with non-controlling interest, the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in the Spin-off Entity. It is expected that there would be no gain or loss on the deemed disposal and the Proposed Spin-off to be recognised in the Company’s consolidated income statement upon completion of the Proposed Spin-off. The difference between the amount by which the non-controlling interest is adjusted and the net proceeds raised from the Proposed A-Share Listing will be recorded in equity attributable to the Shareholders. In addition, as the proportion of the Company’s shareholding in the Spin-off Entity will be diluted immediately upon completion of the Proposed Spin-off and the Spin-off Entity incurred net loss, it is expected that the earnings attributable to shareholders of the Company contributed by the Spin-off Entity will increase.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among other things, the return generated from the proceeds raised from the Proposed A-Share Listing as well as the future business operations of the Spin-off Group.

### *Assets and Liabilities*

The Proposed A-Share Listing will increase the number of shares of the Spin-off Entity and raise corresponding funds at a valuation of the Spin-off Group above its consolidated net assets as at 31 December 2021. The net proceeds of the Proposed A-Share Listing will increase the cash recorded in the consolidated balance sheet of the Group and increase the total assets of the Group correspondingly. The Proposed Spin-off will not affect the liabilities of the Group. Hence, the Proposed A-Share Listing will raise funds and further improve the structure of the Group's assets and liabilities.

### *Working capital and gearing*

As of 31 December 2021, the Group's cash and cash equivalents plus wealth management products amounted to approximately RMB5,791.7 million, and the total amount of cash and cash equivalents plus wealth management products, net of interest-bearing bank borrowings was approximately RMB4,778.5 million. In view of the cash proceeds to be received from the Proposed A-Share Listing, we are of the view that the Group's cash position and overall working capital position would benefit and improve as a result of the Proposed Spin-off.

Furthermore, based on the above, the Group's debt to capital ratio, which is calculated on the basis of percentage of borrowings divided by equity attributable to owners of the Company was 12.6% as at 31 December 2021, is also expected to improve upon completion of the Proposed Spin-off.

Shareholders should note that the actual financial effects will depend on the actual pricing and structure of the Proposed A-Share Listing and the financial position of the Spin-off Entity upon completion of the Proposed A-Share Listing, and therefore, may be different from the above figures.

## **8. Dilution and Disposal of interest in the Spin-off Group**

As stated in the letter from the Board of the Circular, it is expected that immediately upon completion of the Proposed Spin-off, the Company's indirect equity interests in the Spin-off Entity may decrease to 46.7919% and the Company will continue to remain as the single largest shareholder of the Spin-off Group.

In our opinion, such dilution is acceptable to the Shareholders taking into account, among others, (i) the benefits to be derived from the Proposed Spin-off as discussed in the section headed "3. Reasons for and benefits of the Proposed Spin-off" above; (ii) the generally positive financial impacts on the Group including but not limited to, the enhancement on the financial position and gearing of the Group; and (iii) the fact the results and financial position of the Spin-off Group will continue to be consolidated into the accounts of the Group and Shareholders will continue to be able to participate in the future performance of the Spin-off Group.

**9. Remaining Group**

As stated in the section headed “III. Information on the parties — The Remaining Group” in the letter from the Board of the Circular, upon completion of the Proposed Spin-off, the Remaining Group will continue to be principally engaged in medical aesthetics, pharmaceutical business of generic drugs, diabetes-related businesses and CDMO/CMO businesses. Further, immediately upon completion of the Proposed Spin-off, the Remaining Group will be able to satisfy all the requirements under paragraph 3(c) of PN15 and retain a sufficient level of operations and assets to support its separate listing status.

The Company and the Spin-off Entity will be managed by separate boards of directors. The Spin-off Entity’s board of directors will function independently of the Company and in the interests of the Spin-off Entity’s shareholders as a general body and not in the interests of the Company only. Given the fact the Spin-off Entity will continue to be a consolidated subsidiary of the Company, we understand the Company has nominated two directors of the Spin-off Entity. Such two directors of the Spin-off Entity do not have roles on the board of directors of the Company. In addition, each of the Spin-off Group and the Remaining Group has and will continue to have its own management team to carry out the business decisions and independent financial accounting systems.

As further provided by the Management, the Remaining Group and the Spin-off Group are not expected to have any significant future transactions and would function independently of each other upon completion of the Proposed A-Share Listing.

On the above basis, we consider the Remaining Group will continue to have a substantial business and assets after completion of the Proposed Spin-off.

**10. Assured Entitlement**

Paragraph 3(f) of PN15 requires the Company to have due regard to the interests of its existing shareholders by providing them with an assured entitlement to the shares of the Spin-off Entity, either by way of a distribution in specie of existing shares of Spin-off Entity, or by way of a preferred application in the offering of existing or new shares of the Spin-off Entity (the “**Assured Entitlement**”).

As stated in the letter from the Board contained in the Circular, as advised by the PRC legal advisers of the Company, A shares listed and traded on a stock exchange in the PRC can only be held by the following foreigners: (i) residents of Hong Kong, Macao and Taiwan working and residing in the PRC; (ii) foreign natural persons who work in the PRC and whose home country has established a regulatory cooperation mechanism with the CSRC; (iii) foreigners who have obtained permanent residence right in the PRC; (iv) qualified foreign strategic investors of the listed company; (v) qualified foreign institutional investor; (vi) renminbi qualified foreign institutional investor; (vii) foreign natural person investors that comply with requirements of awardee under the Administrative Measures for Share Awards of Listed Companies (Amended in 2018) (《上市公司股權激勵管理辦法》(2018修正)) if a listed company implements share awards to foreign natural person employees; and (viii) foreign investors that hold shares in the listing applicant prior to the initial public offering. Based on the Company’s register of members as at the Latest Practicable Date, it would appear that most of the Company’s existing Shareholders do not fall into this limited category of exception. As such, it would not be practicable or feasible to provide for any entitlement to its Shareholders to subscribe for the shares of the Spin-off Entity.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Furthermore, the regulations of the CSRC and other relevant PRC laws and regulations have not provided existing shareholders with any overall arrangement for the assured entitlements. The eligibility of Shareholders to participate in offline placing as offline investors depends on whether valid quotations could be provided in accordance with the law. The Company cannot provide its existing Shareholders with the right to preferential offering in a fair manner in offline placing. In respect of online subscriptions, pursuant to the currently applicable PRC Stock Exchange rules for online subscriptions, after the total effective subscription amount is confirmed, all valid subscriptions will be arranged in chronological order and determine the successful subscriptions through lotting. Therefore, the Company cannot provide its existing Shareholders with the right to preferential offering in online subscriptions. As no preferential offering could be provided in both offline placings and online subscriptions, the existing Shareholders of the Company are not entitled to have an assured entitlement to shares in the Spin-off Entity.

As there are legal impediments to provide the existing Shareholders the Assured Entitlement, and such legal impediments cannot be overridden, it would be impractical and unduly burdensome for the Company to inquire into every existing Shareholder to ascertain each of their qualifications for the Assured Entitlement; and it would be unduly burdensome for the Company to seek minority Shareholders' approval to waive the Assured Entitlement at a general meeting as the legal restriction could not be overridden even if the resolution was voted down.

Having considered the above legal impediments for providing the Assured Entitlement the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Paragraph 3(f) of PN15.

Given the extent of the PRC laws and regulations as stated above, we concur with the Company that it would not be practicable or feasible to provide any entitlement to all its Shareholders to subscribe for the shares of the Spin-off Entity.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### DISCUSSION

The Group is principally engaged in three principal business segments, being generic medicine, medical aesthetic products and the innovative medicine and other medicine.

The Spin-off Entity is a company established in the PRC with limited liability on 5 September 2018. It is an innovative drug R&D subsidiary of the Group with integrated R&D capabilities from pre-clinical development to clinical development, registration and commercialisation for both small and large molecules. The Spin-off Entity mainly engages in the R&D of innovative drugs, focusing on a number of therapeutic areas such as oncology, metabolism and digestion. As at the Latest Practicable Date, drugs currently under R&D held by the Spin-off Entity are mostly in relation to the field of oncology. This business is clearly delineated from the business of the Remaining Group upon completion of the Proposed Spin-off. The Proposed Spin-off allows both the Remaining Group and the Spin-off Group to have separate fundraising platforms and a better focus of resources on their respective business operations.

Under the expected structure of the Proposed Spin-off, the proceeds to be raised from the Proposed A-Share Listing will be between RMB1.2 billion and RMB3.5 billion based on, among others, (i) the value of the Spin-off Group estimated through comparison with other listed companies in similar industries, the Spin-off Entity's previous fundraising size and estimation of the future development and financial performance of the Spin-off Group; (ii) the Spin-off Group's current business and expansion plan, in particular the R&D, industrialization and commercialisation of its products, and thereby its capital and financing needs; and (iii) the minimum offering size required by the relevant regulations in the PRC and the maximum intended offering size of the Proposed A-Share Listing, being 10% and 25% of the enlarged issued share capital of the Spin-off Entity, respectively and the intended use of proceeds. Proceeds raised will be used for the Spin-off Group's future development including R&D of the Spin-off Group's innovative drugs and construction of the Spin-off Group's headquarters and industrialisation of the Spin-off Group's innovative drugs.

Upon completion of the Proposed Spin-off, the Remaining Group will continue to be principally engaged in medical aesthetics, pharmaceutical business of generic drugs, diabetes-related businesses and CDMO/CMO businesses. The Company will retain the Spin-off Entity as a subsidiary following completion of the Proposed Spin-off, and will continue to benefit from its future profits and growth. It is expected that the net asset and cash flow positions of the Group will be improved as a result of the Proposed Spin-off.

The maximum dilution of the Company's interest in the Spin-off Entity is expected to be approximately 15.6% and we are of the view such level of dilution acceptable, taking into account the benefits which may be derived from the Proposed Spin-off as discussed in the section headed "3. Reasons for and benefits of the Proposed Spin-off" above.

We have performed an analysis of the implied PR multiple of the Spin-off Entity based on current structure of the Proposed Spin-off, including the range of the expected net proceeds to be raised from the Proposed A-Share Listing, details of which are set out in the section headed "6. Evaluation of the pricing of the deemed disposal" in this letter above. We consider that the Proposed Spin-off would unlock the value of the Spin-off Entity and pricing based on the current structure of Proposed A-Share Listing is in line with the market.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at the Latest Practicable Date, a waiver from strict compliance with the PN15 requirements in relation to the Assured Entitlement under the Proposed Spin-off has been obtained by the Company.

Having considered all the above, we are of the view that the Proposed Spin-off is a strategic move for the Group to further develop the business of the Spin-off Group in a way which is beneficial to both the Spin-off Group as well as the Group as a whole.

Shareholders of the Company should note that the Proposed Spin-off is subject to, among other things, obtaining approvals from the relevant regulatory authorities, market conditions and other factors. There is no assurance that the Proposed Spin-off will take place or as to when it will take place.

### OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons set out above, we are of the view that the terms of the Proposed Spin-off, although are not in the ordinary and usual course of business of the Company, are on normal commercial terms and fair and reasonable so far as the Shareholders are concerned and the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Lyan Tam**  
*Director*

*Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 18 years of experience in corporate finance industry.*

**I. FINANCIAL INFORMATION OF THE GROUP**

The audited consolidated financial statements of the Company for the financial years ended 31 December 2019, 2020 and 2021, together with the relevant notes thereof are disclosed in the following documents which have been published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and of the Company ([www.sihuanpharm.com](http://www.sihuanpharm.com)):

- (i) the annual report of the Company for the year ended 31 December 2019 (pages 109 to 264) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0330/2020033000450.pdf>);
- (ii) the annual report of the Company for the year ended 31 December 2020 (pages 109 to 284) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0330/2021033000668.pdf>); and
- (iii) the annual report of the Company for the year ended 31 December 2021 (pages 119 to 304) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0419/2022041900571.pdf>).

**II. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 March 2022, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had aggregate indebtedness of approximately RMB1,186.4 million comprising:

- (i) bank loans of approximately RMB1,115.5 million, among which approximately RMB1,085.5 million are secured bank loans and approximately RMB30.0 million are unsecured bank loans. Such secured bank borrowings are secured by (a) mortgages over the Group's leasehold land and property, plant and equipment with an aggregate carrying value of RMB765,900,000; (b) the pledge of certain of the Group's time deposits amounting to RMB140,000,000; and (c) a portion of equity interests in a subsidiary;
- (ii) other borrowings of approximately RMB35.2 million; and
- (iii) lease liabilities of RMB35.7 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have, as of the Latest Practicable Date, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

**III. WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this circular.

#### IV. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

##### The Remaining Group

The business and corporate value of the Group will further realize upgrade in 2022 based on the high growth of 2021.

The Group's medical aesthetic business bid farewell to the single product distribution sales model and grew into an international medical aesthetic platform integrating R&D, production and sales with a full product matrix covering the life cycle of beauty lovers. The domestic research institutions of the Group will continue to promote the R&D of medical aesthetic products. Dozens of class II products, class III PLLA filler (童顏針) and PCL filler (少女針) in the self-developed product pipeline are expected to take place successively in the next few years. In addition, the Group is using the Meiyen Laboratory Inc (漢顏實驗室) established in the United States as the Group's overseas product R&D and introduction center. It will continue to introduce overseas cutting-edge medical aesthetic technologies and products, and bring them back to China for technology transformation and product production and sales. The Group will inherit the high quality and leading production capacity of the Group in the past, realize the large-scale production of various new medical aesthetic products through three domestic production bases, and rapidly increase its volume of new products in the market through the Company's experienced sales team and professional marketing network covering the whole country. Looking forward to the future development direction of the Group's medical aesthetic business, we will learn the development experience from international giant Allergan, and achieve the goal of building a leading platform for the domestic medical aesthetic industry through comprehensive product matrix, "self-developed + BD" dual engine-driven and overseas high-quality mergers and acquisitions.

The Group's pharmaceutical business will further focus on and accelerate the process of transformation and development to independent R&D and innovative drug enterprises. The innovative drug platform is on the threshold of realizing a leap from product R&D to commercial development, and launching the first new drug application respectively.

The Spin-off Group will continue to promote the product R&D and insistently adhere to independent R&D and continuous innovation. It aims at transforming the R&D investment into profit and from Biotech to Biopharma, so as to become a leading innovative drug company focusing on the field of tumor drugs as well as small molecules and large molecules with the capabilities to develop comprehensive innovative new drugs in China.

Jilin Huisheng Biological Pharmaceutical Co., Ltd. focuses on R&D, production and sales of drugs for diabetes and complications. Through a complete layout of multi mechanisms, multiple varieties of diabetes pipelines, we provide full coverage and comprehensive treatment solutions. With its localized production and cost advantages, Jilin Huisheng Biological Pharmaceutical Co., Ltd. will build a nationwide online and offline dimensional sales network to further achieve the strategic goal of building a biopharmaceutical leader in the field of diabetes and complications with a full product matrix coverage.

The implementation of the Group's CDMO/CMO business will also be gradually included into sequence projects, relying on its high-quality customer resources and adhering to the integration strategy of "API + CDMO" to achieve sustained high business growth. The Group's generic drug business will continue to promote the large-scale growth of the registration, listing and sales of high-quality and high-end generic drugs, continuously being the Group's steady "cash cow" to

ensure the long-term and steady development of the Group. Through its strong registration ability, production capabilities of high efficiency, low cost and full coverage of various dosage forms and a comprehensive and professional academic marketing platform, it ensures the successful listing of existing products and new products and the continuous growth of sales volume, so as to provide the Company with stable and sustainable cash flow. At the same time, it ensures that the innovative drug sector can be continuously invested in R&D so as to promote the release of enterprises value without relying on external emergency aid.

Through the continuous implementation and commercialization of high-quality product pipelines in the medical aesthetic and pharmaceutical sectors, combined with the strong cash generating capacity of the Company's high-end generic drug business, and relying on the Group's strong registration capacity, high efficiency, low cost and full coverage of various dosage forms and a comprehensive, professional and efficient academic marketing platform, it will help the rapid commercialization of a number of new products to be launched, and promote the continuous high growth and value amplification of the Group's overall business.

### **The Spin-off Group**

The Spin-off Group shall plan its future development, conduct overall planning of its R&D projects, promote R&D projects to clinical stages researches, construct large-scale production lines to meet the production capacity needs in future commercialisation of products, which is conducive to the enhancement of core competitiveness of the Spin-off Group's technology among its peers and achieve economic efficiency. The Spin-off Group shall use the proceeds from the Proposed A-Share Listing to expand its business according to the below:

R&D of innovative drugs: the R&D of products including XZP-3287 Birociclib, XZP-3621, XZP-5955, XZP-KM501, XZB-0004 and XZP-KM257 will greatly promote the clinical research and listing progress of the products of the Spin-off Group, which are intended to complete in 2026. Built on the foundation of its existing product pipeline, the Spin-off Group will continue to improve its capability on R&D of innovative drugs.

Construction of headquarters and industrialisation of innovative drugs: the commercialisation of the Spin-off Group's products is imminent with its KBP-3571 ananaprazole sodium NDA having been accepted by the NMPA, and two other products are in phase III clinical trial. The construction of production facility (intended to complete in 2026) will further promote the overall progression of the Spin-off Group from R&D to commercialisation of drugs, which will greatly enhance the production capacity of related products, ensure the industrialisation of the Spin-off Group's innovative drugs, transform the advantages of R&D and innovation of the Spin-off Group into the potential of product commercialisation, thereby enhancing the market competitiveness of the Spin-off Group.

General working capital: the Spin-off Group shall commence marketing work (including market expansion and sales) based on the gradual advancement and approval of the products under development. Part of the general working capital will effectively promote product sales and contribute to and expand sales revenue for the Spin-off Group. In addition to the R&D projects of the abovementioned innovative drugs, the Spin-off Group has other products in its pipeline under development and in the pre-clinical stage. Part of the working capital is intended be used to promote the R&D progress of the Spin-off Group's other products and further expand the Spin-off Group's product pipeline to continuously meet innovation. This is intended to ensure the leading position of the Spin-off Group in the industry while facing with the diversified demands of the pharmaceutical market and product diversification, and further enhance the industry influence of the Spin-off Group.

**V. MATERIAL ADVERSE CHANGE**

The Directors confirm that to the best of the Directors' knowledge, there was no material adverse change in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Company were made up) up to the Latest Practicable Date.

**I. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**II. DISCLOSURE OF INTERESTS****(a) Interests of Directors and chief executives of the Company**

As at the Latest Practicable Date, the interest and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests or short positions in accordance with such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name of Director  | Nature of Interest/Capacity   | Total Number of Shares | Approximate Percentage of Shareholding |
|-------------------|---|------------------------|--|
| Dr. Che Fengsheng | Interest of Spouse  | 5,827,936,704          | 62.46% (L)                             |
|                   | 800,000 Shares (L)  | Shares (L)             | 0.05% (S)                              |
|                   | Trustee   | 5,023,666              |  |
|                   | 3,379,917,225 Shares (L)  | Shares (S)             |  |
|                   | A concert party to an agreement <sup>(Note 1)</sup>   |                        |  |
|                   | 2,439,095,813 Shares (L)  |                        |  |
|                   | Other interest <sup>(Note 2)</sup>  |                        |  |
| Dr. Guo Weicheng  | 8,123,666 Shares (L)  |                        |  |
|                   | 5,023,666 Shares (S)  |                        |  |
|                   | Beneficial owner  | 5,827,936,704          | 62.46% (L)                             |
|                   | 11,350,000 Shares (L)   | Shares (L)             |  |
|                   | Founder of a discretionary trust who can influence how the trustee exercises his discretion |                        |  |
|                   | 1,400,884,399 Shares (L)  |                        |  |
|                   | A concert party to an agreement <sup>(Note 3)</sup>   |                        |  |
|                   | 4,415,702,305 Shares (L)  |                        |  |

| Name of Director    | Nature of Interest/Capacity   | Total Number of Shares      | Approximate Percentage of Shareholding |
|---------------------|---|-----------------------------|--|
| Dr. Zhang Jionglong | Interest of spouse<br>59,000 Shares (L)<br>Founder of a discretionary trust who can influence how the trustee exercises his discretion<br>255,582,886 Shares (L)<br>A concert party to an agreement <sup>(Note 4)</sup><br>5,373,354,818 Shares (L)<br>Interest in a controlled corporation <sup>(Note 5)</sup><br>198,940,000 Shares (L) | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| Mr. Choi Yiau Chong | Beneficial owner <sup>(Note 6)</sup><br>6,000,000 Shares (L)  | 6,000,000 Shares (L)        | 0.06% (L)                              |
| Ms. Chen Yanling    | Beneficial owner <sup>(Note 6)</sup><br>4,000,000 Shares (L)  | 4,000,000 Shares (L)        | 0.04% (L)                              |
| Mr. Patrick Sun     | Beneficial owner <sup>(Note 6)</sup><br>3,000,000 Shares (L)  | 3,000,000 Shares (L)        | 0.03% (L)                              |
| Mr. Tsang Wah Kwong | Beneficial owner <sup>(Note 6)</sup><br>3,000,000 Shares (L)  | 3,000,000 Shares (L)        | 0.03% (L)                              |
| Dr. Zhu Xun         | Beneficial owner <sup>(Note 6)</sup><br>3,000,000 Shares (L)  | 3,000,000 Shares (L)        | 0.03% (L)                              |

*Notes:*

- Under sections 317 and 318 of the SFO, Dr. Che Fengsheng is deemed to be interested in the 329,736,000 Shares, 1,082,498,399 Shares, 175,012,000 Shares, 377,267,528 Shares, 59,000 Shares, 198,940,000 Shares, 255,582,886 Shares and 20,000,000 Shares held by Dr. Guo Weicheng, Successmax Global Holdings Limited, Smart Top Overseas Limited, Victory Faith International Limited, Dr. Zhang Jionglong, Keen Mate Limited, Mingyao Capital Limited and Mr. Meng Xianhui, respectively.
- Since Dr. Che Fengsheng is one of the settlors of the trust for which Sihuan Management (PTC) Limited is a trustee, Dr. Che Fengsheng is deemed to be interested in the long position of 8,123,666 Shares and the short position of 5,023,666 Shares held by Sihuan Management (PTC) Limited.
- Under sections 317 and 318 of the SFO, Dr. Guo Weicheng is deemed to be interested in the 8,923,666 Shares, 497,448,000 Shares, 2,882,469,225 Shares, 175,012,000 Shares, 377,267,528 Shares, 198,940,000 Shares, 255,582,886 Shares, 59,000 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Network Victory Limited, Proper Process International Limited, Smart Top Overseas Limited, Victory Faith International Limited, Keen Mate Limited, Mingyao Capital Limited, Dr. Zhang Jionglong and Mr. Meng Xianhui, respectively.
- Under sections 317 and 318 of the SFO, Dr. Zhang Jionglong is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 497,448,000 Shares, 2,882,469,225 Shares, 175,012,000 Shares, 377,267,528 Shares, 1,082,498,399 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Network Victory Limited, Proper Process International Limited, Smart Top Overseas Limited, Victory Faith International Limited, Successmax Global Holdings Limited and Mr. Meng Xianhui, respectively.
- Dr. Zhang Jionglong is the beneficial owner of 100% of the issued share capital of Keen Mate Limited. As such, Dr. Zhang Jionglong is deemed to be interested in the 198,940,000 Shares held by Keen Mate Limited.
- On 26 August 2020, Mr. Choi Yiau Chong was granted options to purchase 6,000,000 Shares; Ms. Chen Yanling was granted to purchase 4,000,000 Shares; Mr. Patrick Sun was granted to purchase 3,000,000 Shares; Mr. Tsang Wah Kwong was granted to purchase 3,000,000 Shares and Dr. Zhu Xun was granted to purchase 3,000,000 Shares pursuant to the Company's Share Option Scheme adopted on 24 October 2017.
- The letter "L" denotes the Director's long position in such Shares and the letter "S" denotes the Director's short position in such Shares.



Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executive and their associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests or short positions in accordance with such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Interests of substantial Shareholders**

As at the Latest Practicable Date, to the knowledge of the Directors, the persons (other than a Director or chief executive of the Company) who had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name of Shareholder                  | Nature of Interest/Capacity   | Total Number of Shares      | Approximate Percentage of Shareholding |
|--------------------------------------|---|-----------------------------|--|
| Mr. Meng Xianhui                     | Beneficial owner<br>20,000,000 Shares (L)<br>Interest in a controlled corporation <sup>(Note 1)</sup><br>175,012,000 Shares (L)<br>Founder of a discretionary trust who can influence how the trustee exercises his discretion<br>377,267,528 Shares (L)<br>A concert party to an agreement <sup>(Note 2)</sup><br>5,255,657,176 Shares (L) | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| Proper Process International Limited | Beneficial owner<br>2,882,469,225 Shares (L)<br>A concert party to an agreement <sup>(Note 3)</sup><br>2,945,467,479 Shares (L)   | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| Network Victory Limited              | Beneficial owner<br>497,448,000 Shares (L)<br>A concert party to an agreement <sup>(Note 4)</sup><br>5,330,488,704 Shares (L)   | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| Successmax Global Holdings Limited   | Beneficial owner<br>1,082,498,399 Shares (L)<br>A concert party to an agreement <sup>(Note 5)</sup><br>4,745,438,305 Shares (L)   | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |

| Name of Shareholder                 | Nature of Interest/Capacity   | Total Number of Shares      | Approximate Percentage of Shareholding |
|-------------------------------------|---|-----------------------------|--|
| Victory Faith International Limited | Beneficial owner<br>377,267,528 Shares (L)<br>A concert party to an agreement <sup>(Note 6)</sup><br>5,450,669,176 Shares (L) | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| Smart Top Overseas Limited          | Beneficial owner<br>175,012,000 Shares (L)<br>A concert party to an agreement <sup>(Note 7)</sup><br>5,652,924,704 Shares (L) | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| Mingyao Capital Limited             | Beneficial owner<br>255,582,886 Shares (L)<br>A concert party to an agreement <sup>(Note 8)</sup><br>5,572,353,818 Shares (L) | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| Keen Mate Limited                   | Beneficial owner<br>198,940,000 Shares (L)<br>A concert party to an agreement <sup>(Note 9)</sup><br>5,628,996,704 Shares (L) | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| UBS Trustee (Cayman) Ltd.           | Trustee<br>5,827,936,704 Shares   | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |
| UBS TC (Jersey) Ltd.                | Trustee<br>5,827,936,704 Shares   | 5,827,936,704<br>Shares (L) | 62.46% (L)                             |

## Notes:

- Mr. Meng Xianhui is the beneficial owner of 100% of the issued share capital of Smart Top Overseas Limited. As such, Mr. Meng Xianhui is deemed to be interested in the 175,012,000 Shares held by Smart Top Overseas Limited.
- Under sections 317 and 318 of the SFO, Mr. Meng Xianhui is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 59,000 Shares, 2,882,469,225 Shares, 497,448,000 Shares, 1,082,498,399 Shares, 198,940,000 Shares and 255,582,886 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Proper Process International Limited, Network Victory Limited, Successmax Global Holdings Limited, Keen Mate Limited and Mingyao Capital Limited, respectively.
- Under sections 317 and 318 of the SFO, Proper Process International Limited is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 59,000 Shares, 497,448,000 Shares, 1,082,498,399 Shares, 175,012,000 Shares, 377,267,528 Shares, 198,940,000 Shares, 255,582,886 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Network Victory Limited, Successmax Global Holdings Limited, Smart Top Overseas Limited, Victory Faith International Limited, Keen Mate Limited, Mingyao Capital Limited and Mr. Meng Xianhui, respectively.
- Under sections 317 and 318 of the SFO, Network Victory Limited is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 59,000 Shares, 2,882,469,225 Shares, 1,082,498,399 Shares, 175,012,000 Shares, 377,267,528 Shares, 198,940,000 Shares, 255,582,886 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Proper Process International Limited, Successmax Global Holdings Limited, Smart Top Overseas Limited, Victory Faith International Limited, Keen Mate Limited, Mingyao Capital Limited and Mr. Meng Xianhui, respectively.
- Under sections 317 and 318 of the SFO, Successmax Global Holdings Limited is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 59,000 Shares, 497,448,000 Shares, 2,882,469,225 Shares, 175,012,000 Shares, 377,267,528 Shares, 198,940,000 Shares, 255,582,886 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Network Victory Limited, Proper Process International Limited, Smart Top Overseas Limited, Victory Faith International Limited, Keen Mate Limited, Mingyao Capital Limited and Mr. Meng Xianhui, respectively.

6. Under sections 317 and 318 of the SFO, Victory Faith International Limited is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 59,000 Shares, 497,448,000 Shares, 2,882,469,225 Shares, 1,082,498,399 Shares, 175,012,000 Shares, 198,940,000 Shares, 255,582,886 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Network Victory Limited, Proper Process International Limited, Successmax Global Holdings Limited, Smart Top Overseas Limited, Keen Mate Limited, Mingyao Capital Limited and Mr. Meng Xianhui, respectively.
7. Under sections 317 and 318 of the SFO, Smart Top Overseas Limited is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 59,000 Shares, 497,448,000 Shares, 2,882,469,225 Shares, 1,082,498,399 Shares, 377,267,528 Shares, 198,940,000 Shares, 255,582,886 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Network Victory Limited, Proper Process International Limited, Successmax Global Holdings Limited, Victory Faith International Limited, Keen Mate Limited, Mingyao Capital Limited and Mr. Meng Xianhui, respectively.
8. Under sections 317 and 318 of the SFO, Mingyao Capital Limited is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 59,000 Shares, 497,448,000 Shares, 2,882,469,225 Shares, 1,082,498,399 Shares, 175,012,000 Shares, 198,940,000 Shares, 377,267,528 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Network Victory Limited, Proper Process International Limited, Successmax Global Holdings Limited, Smart Top Overseas Limited, Keen Mate Limited, Victory Faith International Limited and Mr. Meng Xianhui, respectively.
9. Under sections 317 and 318 of the SFO, Keen Mate Limited is deemed to be interested in 8,923,666 Shares, 329,736,000 Shares, 59,000 Shares, 497,448,000 Shares, 2,882,469,225 Shares, 1,082,498,399 Shares, 377,267,528 Shares, 175,012,000 Shares, 255,582,886 Shares and 20,000,000 Shares held by Dr. Che Fengsheng, Dr. Guo Weicheng, Dr. Zhang Jionglong, Network Victory Limited, Proper Process International Limited, Successmax Global Holdings Limited, Victory Faith International Limited, Smart Top Overseas Limited, Mingyao Capital Limited and Mr. Meng Xianhui, respectively.
10. The letter “L” denotes the Director’s long position in such Shares and the letter “S” denotes the Director’s short position in such Shares.

Save as disclosed above, as at the Latest Practicable Date, according to the records in the register required to be kept by the Company under section 336 of the SFO, no other parties had an interest or a short position in the Shares or underlying Shares or debentures of the Company recorded under section 336 of the SFO.

### III. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with any member of the Group which is not expiring or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

### IV. DIRECTORS’ INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any asset which have been, since 31 December 2021 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

### V. DIRECTORS’ INTERESTS IN CONTRACTS

There is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

**VI. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined under the Listing Rules) had interests in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**VII. EXPERTS' QUALIFICATIONS AND CONSENTS**

The followings is the qualification of the expert who has given opinion or advice which is contained in this circular:

| <b>Name</b>              | <b>Qualification</b>   |
|--------------------------|--|
| Somerley Capital Limited | A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

As at the Latest Practicable Date, the Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter(s), report(s), certificate(s) and/or opinion(s) (as the case may be) and the references to its name included herein in the form and context in which it is respectively included.

The Independent Financial Adviser has confirmed that as at the Latest Practicable Date, it did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have been, since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**VIII. LITIGATION**

Neither the Company nor its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or its subsidiaries.

**IX. MATERIAL CONTRACTS**

The Group has entered into the following material contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which is or may be material:

- (i) the equity transfer agreement dated 15 April 2022 entered into among Hainan Sihuan Pharmaceutical Co., Ltd.\* (海南四環醫藥有限公司) and Tibet Jiafeng Venture Capital Partnership (Limited Partnership) (西藏嘉豐創業投資合夥企業(有限合夥)) in relation to the purchase and disposal of Beijing Xuansheng Pharmaceutical Co., Ltd. (北京軒升製藥有限公司);
- (ii) the capital increase agreements dated 31 December 2021 and 21 August 2020 entered into among the Spin-off Entity, certain external investors and the then original shareholders of the Spin-off Entity in relation to the subscription of shares in the Spin-off Entity;
- (iii) the shareholders agreements dated 31 December 2021 and 21 August 2020 entered into among the Spin-off Entity, certain external investors and the then original shareholders of the Spin-off Entity in relation to the rights and obligations of the external investors and shareholders of the Spin-off Entity;

- (iv) the subscription agreement dated 21 January 2021 entered into among Euromax Holdings Limited, Hainan Sihuan Pharmaceutical Co., Ltd.\* (海南四環醫藥有限公司) and Beijing Meiyang Space Biomedicine Co., Ltd.\* (北京漢顏空間生物醫藥有限公司) in relation to the subscription of equity interests in Beijing Meiyang Space Biomedicine Co., Ltd.\* (北京漢顏空間生物醫藥有限公司);
- (v) the sale and purchase agreement dated 13 November 2020 entered into among 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) in relation to the sale and purchase of issued share capital of Jilin Huisheng Biological Pharmaceutical Co., Ltd.\* (吉林惠升生物製藥有限公司);
- (vi) the sale and purchase agreement dated 3 May 2020 between Sun Moral International (HK) Limited (耀忠國際(香港)有限公司) and CFS Development Holding Limited in relation to the sale and purchase of the entire issued share capital of Chonghui Investment Limited (重輝投資有限公司) and the assignment of the relevant shareholder's loan; and
- (vii) the sale and purchase agreement dated 3 May 2020 between Sun Moral International (HK) Limited (耀忠國際(香港)有限公司) and Weicheng Investment Holding Limited in relation to the sale and purchase of the entire issued share capital of Tengwei Investment Limited (騰為投資有限公司).

## X. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.sihuanpharm.com](http://www.sihuanpharm.com)) for a period of 14 days from the date of this circular:

- (a) the letter from the Independent Board Committee, which is set out on pages IBC-1 of this circular;
- (b) the letter from the Independent Financial Adviser, which is set out on pages IFA-1 to IFA-25 of this circular; and
- (c) the written consent referred to in the paragraph headed "VII. Experts' Qualifications and Consents" in this Appendix.

## XI. MISCELLANEOUS

- (a) The registered address of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is at Room 4309, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong.
- (c) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The joint company secretaries of the Company are Mr. Choi Yiau Chong and Ms. Mok Ming Wai, who is a fellow member of the Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.
- (e) In the event of any inconsistencies, the English text of this circular shall prevail over the Chinese text.