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Sinco Pharmaceuticals Holdings Limited

兴科蓉医药控股有限公司

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

(Stock Code: 6833)

**(1) SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO THE ACQUISITION OF OPCO AND
THE EQUITY TRANSFER AGREEMENTS;
(2) COMPLETION OF THE EQUITY TRANSFER AGREEMENTS; AND
(3) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
THE ENTERING INTO THE VIE CONTRACTUAL ARRANGEMENTS**

Reference is made to the announcement of the Company dated 22 March 2022 in relation to, among other things, the entering into the Equity Transfer Agreements and the contemplated VIE Contractual Arrangements (the “**Announcement**”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

**(1) SUPPLEMENTAL INFORMATION IN RELATION TO THE ACQUISITION AND
THE EQUITY TRANSFER AGREEMENTS**

The Company would like to provide the Shareholders and potential investors with supplemental information on the Acquisition and the Equity Transfer Agreements as follows:

Valuation of the OPCO

Based on the Valuation Report, the Company would like to provide supplemental information on valuation of the OPCO.

Reasons for adopting the market approach

Given the characteristics of the OPCO, there are substantial limitations for the income approach and the cost approach for valuing the underlying asset due to the following reasons:

- (i) the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date; and
- (ii) the cost approach does not directly incorporate information about the economic benefits to be contributed by the subject business.

In addition, the market approach's benefits include its simplicity, clarity, speed and the need for few assumptions. It also introduces objectivity in application as publicly available inputs are used.

In view of the above, the Valuer has adopted the market approach with the guideline public company method for the valuation.

Key inputs used and selection criteria for comparable companies

The guideline public company method requires the research of comparable companies, its benchmark multiples and proper selection of a suitable multiple to derive the market value of the OPCO. In order to reflect the latest financial performance of the OPCO, it is considered that the suitable multiple in this valuation is the enterprise value-to-EBIT ratio (the “**EV/EBIT Ratio**”), which is calculated by using comparable companies' enterprise value as at the Valuation Date divided by EBIT for last twelve months ended (“**LTM**”) 30 September 2021 which is the latest available financial data of the comparable companies as at the Valuation Date to determine the market value of the OPCO and then taken into account of market liquidity discount and control premium as the appropriate adjustment.

(i) *Comparable companies and multiples*

In determining the price multiple, the initial selection criteria include the followings:

- the comparable companies are publicly listed;
- the comparable companies derive a considerable amount, if not all, of their revenues from the same or closely related industry of the OPCO such as medical aesthetic services;
- the comparable companies are mainly operating in the PRC and Hong Kong; and
- EV/EBIT Ratio of EBIT for last twelve months ended 30 September 2021 of the comparable companies are available, as at the Valuation Date.

Based on the abovementioned selection criteria as sourced from Capital IQ, a reliable third party database service provider designed by Standard & Poor's (S&P), an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis and five comparable companies was identified, the details of these comparable companies are shown below:

Stock Code	Company Name	Company Description
SEHK:919	Modern Healthcare Technology Holdings Limited	Modern Healthcare Technology Holdings Limited, an investment holding company, provides beauty and wellness services in Hong Kong, the PRC, Singapore, and Australia.
SEHK:1827	Miricor Enterprises Holdings Limited	Miricor Enterprises Holdings Limited, an investment holding company, provides a range of non-surgical medical aesthetic services in Hong Kong.
SEHK:1830	Perfect Medical Health Management Limited	Perfect Medical Health Management Limited, an investment holding company, provides healthcare and medical beauty services in Hong Kong, the PRC, Macau, and Australia.
SEHK:1161	Water Oasis Group Limited	Water Oasis Group Limited, an investment holding company, provides general, specialist, and medical beauty services.
SEHK:2138	EC Healthcare	EC Healthcare, an investment holding company, engages in the provision of medical and healthcare services in Hong Kong, Macau, and the PRC. It also provides quasi-medical, beauty and wellness, medical imaging, medical surgery, aesthetic medical beauty, aesthetic medical, dental, hair treatment, vaccine, chiropractic, psychological, and orthopedics services.

Further details of these five comparable companies with available EV/EBIT Ratios are shown as follows:

Stock Code	Enterprise Value as at 31 December 2021 (USD Million)	EBIT LTM 30 September 2021 (USD Million)	Multiple
SEHK:919	8.87	1.95	4.55
SEHK:1827	86.95	6.24	13.94
SEHK:1830	860.74	52.19	16.49
SEHK:1161	151.20	23.56	6.42
SEHK:2138	1,641.19	47.11	34.84
Median			13.94
Average			15.25

(ii) *Discount for Lack of Marketability (“DLOM”)*

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

The Valuer therefore applied DLOM to calculate the valuation of the OPCO as it is not a listed company.

The Valuer has assessed the DLOM using the put option method, which is one of the most commonly used theoretical models. The concept is that when comparing a public share and a private share, holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. The value of put option is determined by “Finnerty Option Pricing Model” with the following parameters.

Parameter	Value	Remarks
Spot Price	1.00	The spot price is set to be 1.00 in the valuation to calculate DLOM.
Exercise Price	1.00	An at-the-money put option is used to estimate DLOM.
Volatility	63%	With reference to the comparable companies, as sourced from Capital IQ.
Target event expected date	31 December 2023	As there is no specific indication of the time to maturity, it is assumed that a liquidity event will occur at 31 December 2023. A liquidity event is an event, such as IPO, merger or sales, from which the subject asset will have marketability. The assumption of occurrence of a liquidity event is the normal approach to determine the maturity. The type of the liquidity event is not relevant for the purpose of determining the parameter used.

By using the put option method and based on the above assumptions, the estimated DLOM is around 20%.

(iii) *Control Premium*

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest a business enterprise that reflects the power of a control.

Upon completion of the Acquisition, Sichuan Sinco Biotech will indirectly hold 70% equity interest in the OPCO and obtain, via the VIE Contractual Arrangements, control over and the economic benefits derived from the remaining 30% equity interest in the OPCO. Therefore, the Valuer has also taken into account the control premium to calculate the valuation of the OPCO.

The control premium adopted in this valuation is 20%, with reference to the control premium of closed transactions in specialized consumer services or health care facilities or health care services industry within 5 years prior to the Valuation Date.

(iv) *Calculation of Valuation Result of the OPCO*

Under the guideline public company method, the market value depends on the market multiples of the comparable companies selected and sourced from Capital IQ, as at the Valuation Date and the Valuer has also taken into account the control premium of and DL0M of the OPCO.

The calculation of the market value of the equity interest in the OPCO as at the Valuation Date is as follows:

	As at 31 December 2021
Applied EV/EBIT Ratio (Median)	13.94
EBIT for last twelve months ended 30 September 2021* of the OPCO (RMB'000)	7,258
Enterprise Value of the OPCO (RMB'000) (rounded)	101,200
Less: Net Debt	–
Equity Value of the OPCO (RMB'000) (rounded)	101,200
Adjusted for DL0M at 20%	(1-20%)
Adjusted Control Premium at 20%	(1+20%)
100% Equity Value of the OPCO (RMB'000) (rounded)	97,000

Notes: EBIT for last twelve months ended 30 September 2021 was elected and applied in this valuation which is the latest available financial data of comparable companies.

The Board's assessment on the fairness and reasonableness of the valuation

The Board has discussed with the responsible person of the Valuer and cautiously reviewed the relevant basis, assumptions and methodology of the valuation. The Board is of the view that the market value of 100% equity interest of the OPCO as at Valuation Date is reasonably stated approximately at the amount of RMB97,000,000. In view of the above, the Board considers that the valuation was suitably determined and therefore fair and reasonable.

The Equity Transfer Agreements

The Board's assessment on the results targets and consideration adjustment mechanism

The Board (including the independent non-executive Directors) is of the view that the terms of the Equity Transfer Agreements, including those relating to the results targets and consideration adjustment mechanism, were entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interest of the Company and the Shareholders, principally for the factors and reasons as follows.

- (i) Pursuant to the Equity Transfer Agreements, Mr. Jiang Biao (“**Mr. Jiang**”) is jointly and severally liable to the results targets and consideration adjustment mechanism. Mr. Jiang, being a controlling shareholder of the vendors (in which Mr. Jiang holds 70% equity interest), shall enter into an employment contract with the OPCO to be employed as the dean for a term of not less than five years and continue to be part of the core management team of the OPCO. Accordingly, Mr. Jiang will remain as part of the core management of the OPCO throughout the period the consideration adjustment mechanism shall operate. Further, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, based on information available to the Company, the financial ability of Mr. Jiang was sufficient to fulfil his joint and several guarantee obligations provided under each of the Equity Transfer Agreements. In determining Mr. Jiang’s financial ability, the Company performed due diligence review, including with limitation, obtaining letter of confirmation from Mr. Jiang and credit report of Mr. Jiang from the Credit Reference Center of the People’s Bank of China.
- (ii) The request for return of the first and second installments under the consideration adjustment mechanism constitutes only part of the available remedies under the Equity Transfer Agreements. Should the annual target net profit under the Equity Transfer Agreements fail to be met, the Company will proceed with available remedy in the best interest of the Company and the Shareholders taking into account of the relevant circumstances.

The supplemental information provided hereinabove is supplemental to and should be read in conjunction with the Announcement.

(2) COMPLETION OF THE EQUITY TRANSFER AGREEMENTS

The Board is pleased to announce that, on 10 May 2022 (after trading hour), the Completion under each of the Equity Transfer Agreements took place. Accordingly, the Target Company and the OPCO become a wholly-owned subsidiary and a 70%-owned subsidiary, respectively, of the Company and their financial results are consolidated into the Group's financial statements under the prevailing accounting principles.

(3) ENTERING INTO THE VIE CONTRACTUAL ARRANGEMENTS

The Board is also pleased to announce that, on 10 May 2022 (after trading hour), a series of agreements under the VIE Contractual Arrangements were entered into, material terms thereunder are set out below. For details of reasons for and benefits of using the VIE Contractual Arrangements, please refer to the paragraphs headed "Reasons for using the VIE Contractual Arrangements" and "Reasons for and benefits of the Acquisition, the entering into of the Equity Transfer Agreement and the VIE Contractual Arrangements" in the Announcement.

Material terms of each of the agreements under the VIE Contractual Arrangements

1. Exclusive Business Cooperation Agreements

Pursuant to the Exclusive Business Cooperation Agreement A, Renshangren agreed to engage Sichuan Sinco Biotech as their exclusive services provider of technical support, business support and related consulting services in exchange of a service fee. The services to be provided include but are not limited to (i) investment consulting in pharmaceutical related industry; (ii) technological development of biotechnological product, technical consultation, transfer of technology and technical services; (iii) technical support and professional training; (iv) consultation, collection and research of relevant technical and market information (except for market research restricted to foreign-invested enterprises by the law of the PRC); (v) business management consultation; (vi) equipment and asset rental; and (vii) other related technical services and consulting services at the request of Renshangren (to the extent permitted by the law of the PRC). During the term of the Exclusive Business Cooperation Agreement A, subject to the requirements under the Equity Transfer Agreements¹, Sichuan Sinco Biotech 100% shall be entitled to all of Renshangren's distributable profits in the current year in the form of services fee after deducting the loss of previous year(s) (if any) and the statutory reserve fund (if applicable) and Sichuan Sinco Biotech may use the intellectual property rights owned by Renshangren at nil consideration.

Pursuant to the Exclusive Business Cooperation Agreement B, the OPCO agreed to engage Sichuan Sinco Biotech as their exclusive services provider of technical support, business support and related consulting services in exchange of a service fee. The services to be provided include but are not limited to (i) assets and business management consulting of the related hospital and sharing of medical resources; (ii) human resources consultation; (iii) marketing and business development consulting, marketing strategy formulation and monitoring; (iv) related technology development, technical consultation (including medical technology consultation), technology transfer and technology promotion services; (v) product quality control support; (vi) Medical service quality control support; (vii) consulting on major contracts; (viii) consulting on investment, financing and merger and acquisition; (ix) supplier and inventory management; (x) technical professional training for relevant personnel; (xi) consultation, collection and research of relevant technical and market information (except for market research restricted to foreign-invested enterprises by the law of the PRC); (xii) enterprise management consulting; (xiii) equipment and assets rental; and (xiv) other related technical services and consulting services at the request of Renshangren (to the extent permitted by the law of the PRC). During the term of the Exclusive Business Cooperation Agreement B¹, Sichuan Sinco Biotech shall be entitled to 30% of the OPCO's income in the current year in the form of services fee after deducting the loss of previous year(s) (if any) and the statutory reserve fund (if applicable) and Sichuan Sinco Biotech may use the intellectual property rights owned by the OPCO at nil consideration.

Subject to compliance with the Listing Rules, the Exclusive Business Cooperation Agreements shall become effective from the date of signing, and shall remain valid for three years, and to be automatically renewed for a term of three years upon its expiration, unless the continuing performance of the agreements would lead to violation or non-compliance of the applicable PRC laws and regulations, the Listing Rules or other requests of the Stock Exchange or terminated in accordance with the terms therein.

Further, the Exclusive Operation Services Agreements can be terminated in the following events: (i) at its sole discretion, Sichuan Sinco Biotech issues a notice in writing 10 days in advance to unilaterally terminate or cancel the agreement; and (ii) either party's application for renewal of its operation period has not been approved or agreed by the competent authority.

Note:

1. Pursuant to the Equity Transfer Agreement B, accumulated profits of Renshangren and the OPCO shall not be distributed during the period from the Completion Date to 31 December 2024. As such, relevant accumulated profits of Renshangren and the OPCO shall be distributed after 1 January 2025 in the form of services fee in accordance with the agreements.

2. *Equity Pledge Agreements*

Pursuant to the Equity Pledge Agreements, (i) the PRC Equity Owner agrees to pledge all of its equity interests in Renshangren in favour of Sichuan Sinco Biotech; and (ii) Renshangren agrees to pledge all of its equity interests in the OPCO in favour of Sichuan Sinco Biotech.

If the PRC Equity Owner, Renshangren and the OPCO declare any dividend during the term of the equity pledge, Sichuan Sinco Biotech is entitled to receive all dividends or other income arising from the equity interests pledged (if any). In the event of any breach of obligations by the PRC Equity Owner, Renshangren or the OPCO, if the PRC Equity Owner, Renshangren or the OPCO fails to correct or take remedial action within a reasonable period or within ten days after Sichuan Sinco Biotech serves a notice in writing requesting for such correction, Sichuan Sinco Biotech is entitled to remedies, including but not limited to disposing of the equity interests pledged in its favour.

Each of the PRC Equity Owner, Renshangren or the OPCO undertakes to Sichuan Sinco Biotech, among other things, (i) the PRC Equity Owner and Renshangren are the only legal owners of the pledged interest over 100% equity interest in Renshangren and 30% equity interest in the OPCO, respectively; (ii) other than the pledges under the Equity Pledge Agreements, the pledgor has not created any pledge or encumbrance on their respective pledged interests under the Equity Pledge Agreements, nor have there been any dispute over the ownership of such pledged interests, nor have such pledged interests been subject to seizure or other legal proceedings or similar threats, and that such pledge interests can be used for pledge and transfer in accordance with the applicable laws; and (iii) not to transfer or pledge their equity interests pledged and not to create or allow any pledge or encumbrance thereon without Sichuan Sinco Biotech's prior written consent.

As the case may be, the PRC Equity Owner, Renshangren and the OPCO shall (i) register the pledges under the Equity Pledge Agreements on the registers of member of Renshangren and the OPCO within three (3) business days from the date of signing the Equity Pledge Agreements; (ii) apply to the relevant administration authority for market regulation for the registration of the interests pledged within ten (10) working days from the date of signing of the Equity Pledge Agreements; and (iii) submit all necessary documents and go through all necessary formalities in accordance with the PRC laws and regulations and the requirements of relevant administration authority for market regulation to ensure that the pledges are registered within twenty (20) days after submitting the applications and provide Sichuan Sinco Biotech with documents to prove that the registration has been completed.

We are in the process of registration of the equity pledges contemplated under the Equity Pledge Agreements with the relevant PRC legal authority pursuant to PRC laws and regulations. The equity interest pledged shall be effective since the date it is registered with the relevant administration authority for market regulation until the PRC Equity Owner's contract obligations and guarantee liabilities are performed and settled in accordance with provisions of this agreement(s).

3. *Exclusive Purchase Rights Agreement*

Pursuant to the Exclusive Purchase Rights Agreements, the PRC Equity Owner and Renshangren irrevocably and unconditionally grants an exclusive option to Sichuan Sinco Biotech which entitles Sichuan Sinco Biotech to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the 100% equity interest in Renshangren and 30% equity interest in the OPCO, respectively, itself or through its designated person(s). The transfer price of the relevant equity interests and assets shall be determined as follow: (i) unless otherwise required by the applicable PRC laws and regulations to conduct an evaluation or be subject to other restrictive requirements, the parties to the Exclusive Purchase Right Agreements agree that the price for Sichuan Sinco Biotech to purchase the relevant equity interest shall be equal to the actual contribution of registered capital made by the PRC Equity Owner or Renshangren (as the case may be) in respect of the equity interest to be purchased; and (ii) in the event the lowest price permissible under the applicable law is higher than the actual contribution of registered capital made by the PRC Equity Owner or Renshangren (as the case may be) in respect of the equity interest to be purchased, the transfer price shall be the lowest price as permissible under the PRC law. If Sichuan Sinco Biotech exercises the purchase right, subject to the applicable requirements pursuant to the PRC law, the PRC Equity Owner or Renshangren (as the case may be) shall immediately transfer all such transfer price to Sichuan Sinco Biotech or its designated person(s) by way of gift after deducting the applicable taxes and government fees.

The PRC Equity Owner, Renshangren and the OPCO undertake to, among other things, (i) develop the business of and administer Renshangren and the OPCO (as the case may be) in a diligent and efficient manner in accordance with proper financial and business standards and customs; (ii) not to take (or omit to take) any action which may affect the asset and share value and the operation of Renshangren and the OPCO (as the case may be); (iii) take all necessary action(s) to ensure that Renshangren and the OPCO (as the case may be) is able to obtain all necessary business licenses for operating their respective businesses and procure that all such business licenses shall continue to be effective and valid at all time; and (iv) the PRC Equity Owner and Renshangren shall immediately transfer to Sichuan Sinco Biotech or its designated person(s) the equity interest they hold in Renshangren and the OPCO, respectively, once it is permissible under the PRC law that the businesses in which Renshangren and the OPCO operate be invested by wholly foreign owned enterprises directly.

The PRC Equity Owner, Renshangren and the OPCO also undertake not to, among other things, without the prior written consent of Sichuan Sinco Biotech, (i) supplement, alter or amend the constitutional document of Renshangren and the OPCO (as the case may be) in any form, increase or decrease the registered capital or otherwise change the shareholding structure of Renshangren and the OPCO (as the case may be); (ii) provide loan facility or guarantee to any person; and (iii) Renshangren and the OPCO shall not be dissolved or liquidated unless required by the PRC law.

The Exclusive Purchase Right Agreements became effective from signing until terminated by any of the following events: (i) the PRC Equity Owner and/or Renshangren transfers all of its equity interest held in Renshangren or the OPCO (as the case may be) to Sichuan Sinco Biotech and/or its designated person(s) in accordance to law and the provisions under this agreement(s); or (ii) Sichuan Sinco Biotech is entitled to, at its sole discretion, unconditionally terminate or cancel this agreement(s) by issuing a notice in writing to the PRC Equity Owner and/or Renshangren thirty (30) days in advance, without assuming any responsibility. Unless otherwise required by the PRC law, the PRC Equity Owner, Renshangren and the OPCO are not entitled to unilaterally terminate this agreement(s) under any circumstances.

4. *Power of Attorney*

Pursuant to the Power of Attorney, the PRC Equity Owner irrevocably and unconditionally authorises Sichuan Sinco Biotech or its designated person(s) (including its successor and liquidator, if applicable) to exercise all of its rights and powers as a shareholder of Renshangren, including without limitation:

- to sign and deliver any written document in the name and on behalf of the PRC Equity Owner;
- Sichuan Sinco Biotech or its designated person(s) to exercise the PRC Equity Owner's voting rights to resolve on any matters to be decided by the shareholder, including but not limited to the sale, transfer, charge, pledge or disposal of any or all of its asset (including 30% equity interest in the OPCO);

- to authorise Renshangren to file any registration documents with the competent governmental authorities;
- to nominate, appoint, designate or remove the legal representative, director/ executive director, general manager, financial director and other senior management of Renshangren; and
- to exercise any other rights and powers as a shareholder provided in articles of association of Renshangren and the relevant law and regulation.

As Sichuan Sinco Biotech is an indirect wholly-owned subsidiary of our Company, the terms of the Power of Attorney give our Company full control over all corporate decisions made by Sichuan Sinco Biotech and thereby management control over Renshangren.

The Power of Attorney became effective from signing and shall be irrevocable and continue to be valid during the time for the PRC Equity Owner remain to be a shareholder of Renshangren, unless Sichuan Sinco Biotech makes a written instruction to the contrary.

5. *Spousal Undertaking*

Pursuant to the Spousal Undertaking, the spouse of the PRC Equity Owner irrevocably and unconditionally undertakes that, among other things, (i) the equity interest of Renshangren (which in turn holds 30% equity interest in the OPCO) held from time to time by the PRC Equity Owner shall be the personal property of my spouse, being the PRC Equity Owner, which does not fall within the scope of joint possession; and (ii) she disclaims any rights and interests, as may be conferred upon her pursuant to any applicable law, attached to the aforesaid equity interest of Renshangren (together with its underlying assets).

Our PRC Legal Advisors are of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of the PRC Equity Owner and his spouse and (ii) the death or divorce of such shareholder would not affect the validity of the VIE Contractual Arrangements, and Sichuan Sinco Biotech or our Company can still enforce their rights under the VIE Contractual Arrangements against the PRC Equity Owner and its successors.

Common terms and discussion of the series of agreements under the VIE Contractual Arrangements

Dispute resolution

Each of the Exclusive Business Cooperation Agreements, the Equity Pledge Agreements, the Exclusive Purchase Right Agreements, the Power of Attorney and the Spousal Undertaking is governed by and will be construed in accordance with the PRC laws and contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the interpretation and performance of the VIE Contractual Arrangements, the parties shall first resolve such dispute by way of friendly negotiation. In the event such dispute has not been resolved within thirty (30) days after a notice in writing was issued by a party to the other party(ies) requesting for negotiation, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of Renshangren (which holds 30% equity interest in the OPCO) or OPCO, e.g. for the conduct of business or to compel the transfer of assets, or injunctive relief or order the winding up of Renshangren or OPCO. The parties also agree that, provided that there is no violation of applicable law, the following courts of law shall also be deemed as courts of competent jurisdictions with the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases: the courts of Hong Kong, Cayman Islands, the PRC and the place where the principal assets of Sichuan Sinco or Renshangren or the OPCO are located or other courts which are deemed to have jurisdiction in accordance with the PRC law.

However, our PRC Legal Adviser is of the view that the above provisions may not be enforceable under the PRC laws. For instance, (i) any arbitral award to order the winding up of Renshangren or the OPCO maybe unenforceable under PRC law and arbitration institution has no power to issue an injunction to protect Sichuan Sinco Biotech's properties or equities situated in the PRC; (ii) interim remedies or enforcement order granted by Hong Kong or the Cayman Islands may not be recognizable or enforceable in the PRC; (iii) the contemplated equity pledge shall be effective only after the completion of equity pledge registration process with the competent administration authority for market regulation; and (iv) the arbitration award made by the China International Economic and Trade Arbitration Commission may be enforced only after the competent people's court makes a ruling agreeing such enforcement.

As a result of the above, in the event that any of the PRC Equity Owner (and/or his spouse), Renshangren, the Target Company or the OPCO breaches any terms of the VIE Contractual Arrangements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over Renshangren and 30% equity interest in the OPCO and conduct its business could be materially and adversely affected.

Loss sharing

Under the relevant PRC laws and regulations and the VIE Contractual Arrangements, none of our Company or Sichuan Sinco Biotech is legally required to share the losses of, or provide financial support to Renshangren or the OPCO. Further, Renshangren and the OPCO are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. Since the financial position and results of operations of Renshangren and the OPCO will be consolidated into the Group's financial statements under the applicable accounting principles, the Company's business, financial position and results of operations would be adversely affected if Renshangren or the OPCO suffers losses, even though the Directors are of the view that the business operation conducted by our Group through Renshangren and the OPCO does not account for a material portion of the Group's business operations.

Succession

Our PRC Legal Advisor is of the view that, given that (i) the VIE Contractual Arrangements are binding on any successor(s) of the PRC Equity Owner as if such successor(s) was a signing party to the VIE Contractual Arrangements, as such, any breach by the successor(s) would be deemed to be a breach of the VIE Contractual Arrangements and thereby Sichuan Sinco Biotech can enforce its rights against the successor(s) if such a breach occurs; (ii) the PRC Equity Owner, Renshangren and the OPCO shall not assign their rights or obligations thereunder to any third party without the prior written consent of Sichuan Sinco Biotech, the death, incapacity or divorce of the PRC Equity Owner or his assignment permitted by Sichuan Sinco Biotech will not affect or hinder the fulfilment of his obligations under each of the VIE Contractual Arrangements, if the VIE Contractual Arrangements are strictly observed by the relevant parties.

Conflicts of interests

The PRC Equity Owner, Renshangren and the OPCO undertake that, as long as the VIE Contractual Arrangements remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with Sichuan Sinco Biotech or its direct or indirect shareholders. If there is any conflict of interest, Sichuan Sinco Biotech shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. The PRC Equity Owner, Renshangren and the OPCO will unconditionally follow the instructions of Sichuan Sinco Biotech to take any action to eliminate such conflict of interest.

Liquidation

Pursuant to the Exclusive Business Cooperation Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholders of Renshangren and the OPCO shall, give the proceeds they received from liquidation as a gift to Sichuan Sinco Biotech or its designee(s) to the extent permitted by PRC laws.

Accordingly, in the event of a winding-up of Renshangren or the OPCO, Sichuan Sinco Biotech shall be entitled to the liquidation proceeds of Renshangren and the OPCO based on the Contractual Arrangements for the benefit of our Company’s creditors and shareholders.

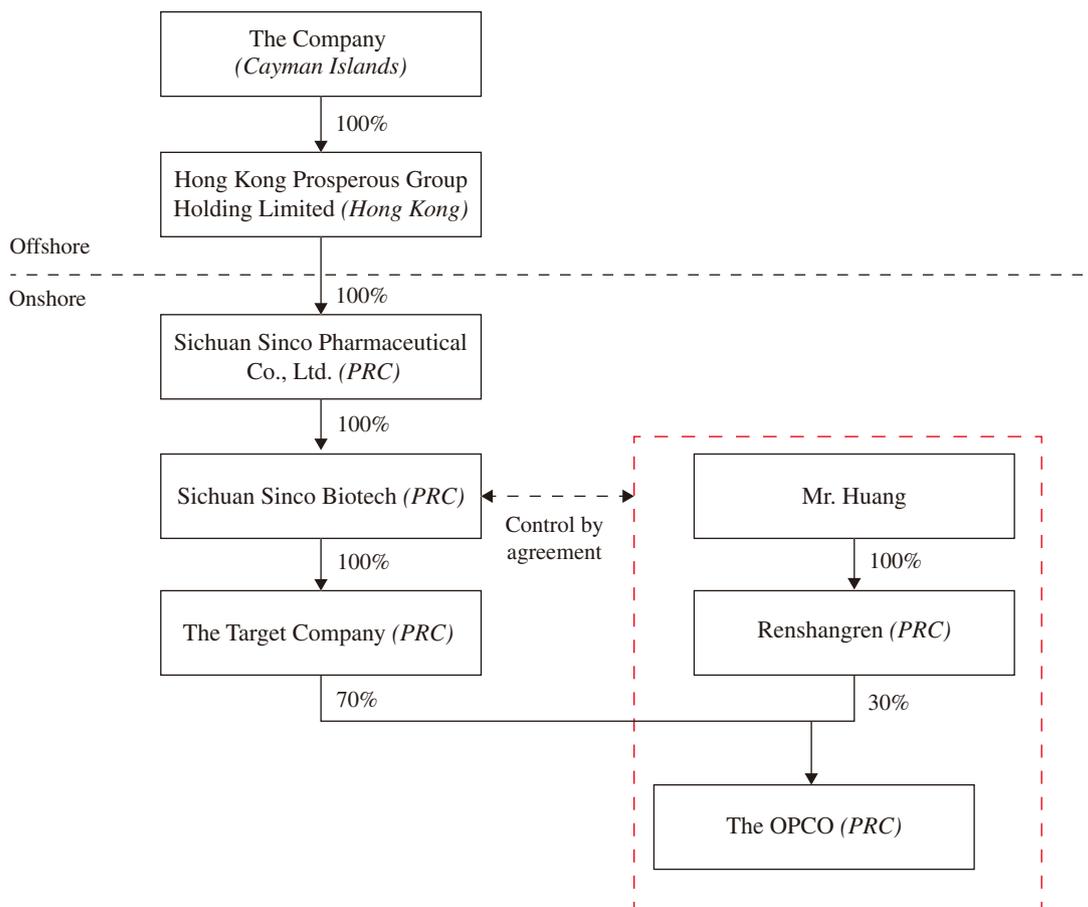
Insurance

The Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements and has no intention to purchase any insurance in this regard.

As of the date of this announcement, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through Renshangren and the OPCO under the VIE Contractual Arrangements.

The VIE Structure

The following diagram illustrates the control by and flow of economic benefit to the Company under the VIE Contractual Arrangements:



Legality of the VIE Contractual Arrangements

Based on the above, the Directors believe that the VIE Contractual Arrangements are narrowly tailored to achieve the Group's business purpose and minimise the potential conflict with relevant PRC laws and regulations. Our PRC Legal Adviser is also of the view that:

- (i) the parties to each of the VIE Contractual Arrangements have obtained all necessary internal approvals to execute and perform the VIE Contractual Arrangements. Save and except for (i) the registration of the Equity Pledge Agreements with the competent administration authority for market regulation to be completed; and (ii) the exercise of the option by Sichuan Sinco Biotech under the Exclusive Purchase Rights Agreement may be required to be approved by the relevant regulatory authorities, the execution and the performance of the obligations by the contracting parties to the VIE Contractual Arrangements do not require any approval or permits from any PRC regulatory authorities;
- (ii) none of the VIE Contractual Arrangements violates the current articles of association of the OPCO, Renshangren, Sichuan Sinco Biotech or the Target Company, or the mandatory requirements under the applicable PRC laws and regulations;
- (iii) each of the VIE Contractual Arrangements shall be effective and binding and enforceable against each signing parties under the PRC laws save for:
 - a. any arbitral award to order the dissolution and liquidation of Renshangren or the OPCO may be unenforceable under PRC law and arbitration institution has no power to issue an injunction to protect Sichuan Sinco Biotech's properties or equities situated in the PRC;
 - b. interim remedies or enforcement order granted by the courts of Hong Kong or the Cayman Islands may not be recognisable or enforceable in the PRC;
 - c. the contemplated equity pledge shall be effective only after the completion of equity pledge registration process with the competent administration authority for market regulation; and
 - d. the arbitration award made by the China International Economic and Trade Arbitration Commission may be enforced only after the competent people's court makes a ruling agreeing such enforcement.

Risk in relation to the VIE Contractual Arrangements

If the PRC government deems that the VIE Contractual Arrangements do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests received through the VIE Contractual Arrangements.

Foreign ownership of certain businesses in the PRC is subject to restrictions under current PRC laws and regulations. For example, except for qualified service providers from Hong Kong, Macao and Taiwan, foreign investors are not allowed to own 100% of the equity interest in medical institutions.

The Company is an exempted company incorporated in the Cayman Islands, as such, we are classified as a foreign enterprise under PRC laws and regulations. Through our indirect wholly-owned PRC subsidiary, Sichuan Sinco Biotech, we have entered into a series of VIE Contractual Arrangements with Renshangren (which holds 30% equity interest in the OPCO). Through the Company's indirect 70% shareholdings and the VIE Contractual Arrangements, the Company controls the OPCO through Sichuan Sinco Biotech and, at our Company's sole discretion, can receive all of the economic interest returns generated by the OPCO.

Our PRC Legal Advisor is of the view that, save as disclosed in this announcement, the VIE Contractual Arrangements are legal, valid, enforceable and binding upon the parties thereto under the current applicable PRC laws. However, our PRC Legal Advisor is also of the view that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly, there can be no assurance that the PRC court or government will ultimately take a view that is consistent with the opinion of our PRC Legal Advisors.

On 15 March 2019, the 2nd meeting of the 13th Standing Committee of the National People's Congress approved the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (the "**FIL**") which became effective on 1 January 2020. According to the FIL, the "foreign investment" refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as "**Foreign Investors**"), including the following: (1) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or guidelines of the State Council. However, the interpretation and application of the FIL remain uncertain. In addition, the FIL stipulates that foreign investment includes "Foreign Investors investing in China through many other methods under laws, administrative regulations or provisions prescribed by the State Council." We cannot assure you that the VIE Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the VIE Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the VIE Contractual Arrangements. If our ownership structure, VIE Contractual Arrangements and business or that of Renshangren or the OPCO are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits or approvals, the relevant governmental authorities would have broad discretion in dealing with such violations, including:

- levying fines on us;
- confiscating our income or the income of Renshangren or the OPCO;
- restricting or prohibiting the VIE Contractual Arrangements;

- revoking the business licenses and/or operating licenses of Renshangren and/or the OPCO;
- shutting down the medical institution operated by the OPCO;
- discontinuing or placing restrictions or onerous conditions on the operation of the OPCO, requiring us to undergo a costly and disruptive restructuring; and
- taking other regulatory or enforcement actions that could be harmful to the business of the OPCO.

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would result in us failing to receive a portion of the economic benefits from Renshangren and/or the OPCO, which in turn may adversely affect our business, financial condition and results of operations.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to the VIE Contractual Arrangements. In addition, if any equity interest held by Renshangren in the OPCO is held in the court custody in connection with its litigation, arbitration or other judicial or dispute resolution proceedings, we cannot assure you that such equity interest will be disposed of by us in such proceedings in accordance with the VIE Contractual Arrangements. The occurrence of any of these events could adversely affect our business, financial condition and results of operations.

Our VIE Contractual Arrangements may result in adverse tax consequences to us.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face adverse tax consequences if the PRC tax authorities determine that the VIE Contractual Arrangements were not made on an arm's length basis and adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by increasing the tax liabilities of Renshangren and the OPCO without reducing the tax liability of Sichuan Sinco Biotech, which could further result in late payment fees and other penalties to Renshangren and the OPCO for underpaid taxes; or (ii) limiting the ability of Renshangren and the OPCO to obtain or maintain preferential tax treatments and other financial incentives.

The shareholder(s) of the OPCO may have potential conflicts of interest with us, which may adversely affect our business and financial condition.

Our 30% equity interest in the OPCO is held by Renshangren and the PRC Equity Owner based upon the VIE Contractual Arrangements. The PRC Equity Owner and Renshangren may potentially have a conflict of interest with us, and they may breach their agreements with us or if they otherwise act in bad faith, if they believe the VIE Contractual Arrangements would adversely affect their own interests. We cannot assure you that when conflicts of interest arise between us and Renshangren and/or the PRC Equity Owner, Renshangren and/or the PRC Equity Owner will act completely in our interests or that the conflicts of interest will be resolved in our favor. If Renshangren and/or the PRC Equity Owner does not act completely in our interests or the conflicts of interest between us and it are not resolved in our favor, our business and financial condition may be adversely affected.

In addition, the PRC Equity Owner and/or Renshangren may breach or refuse to renew, or cause the OPCO to breach or refuse to renew, the VIE Contractual Arrangements with us. If the PRC Equity Owner and/or Renshangren breach their agreements with us or otherwise have disputes with us, we may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. Such disputes and proceedings may distract our management's attention, adversely affect our ability to control the approximately 30% equity interest in the OPCO and 100% equity interest in Renshangren held by the PRC Equity Owner. We cannot assure you that the outcome of any such dispute or proceeding will be in our favor.

The VIE Contractual Arrangements may not be as effective in providing operational control as direct ownership. The PRC Equity Owner and/or Renshangren may fail to perform their obligations under the VIE Contractual Arrangements.

We have 70% equity ownership interests in the OPCO and rely on the VIE Contractual Arrangements with the OPCO, the PRC Equity Owner and Renshangren to control the remaining equity ownership interests in the medical institution operated by the OPCO. Although the PRC Legal Adviser is of the view that, save as disclosed in this announcement, the VIE Contractual Arrangements constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, the VIE Contractual Arrangements may not be as effective in providing us with control over 100% equity interest in Renshangren or the 30% equity interest in the OPCO as direct ownership. If the PRC Equity Owner and/or Renshangren fails to perform its respective obligations under the VIE Contractual Arrangements, we may incur considerable costs and expend considerable resources to enforce our rights. All of these VIE Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these VIE Contractual Arrangements will be resolved through arbitration or litigation in accordance with the terms thereunder. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce these VIE Contractual Arrangements. The VIE Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the equity interests and/or assets of Renshangren and/or the OPCO, injunctive relief and/or winding up of these entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. In addition, interim remedies or enforcement order granted by overseas courts of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. In the event we are unable to enforce these VIE Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these VIE Contractual Arrangements, we may not be able to exert effective control over Renshangren and may not prevent leakage of equity and values to the minority shareholder of the OPCO or obtain the full economic benefits of the same.

We may lose control over Renshangren and may not enjoy full economic benefits of the OPCO if Renshangren declares bankruptcy or become subject to a dissolution or liquidation proceeding.

Renshangren holds 30% equity interest in the OPCO. The VIE Contractual Arrangements contain terms that specifically provide that Renshangren may not be voluntarily liquidated without the written consent of Sichuan Sinco Biotech. However, if the PRC Equity Owner and/or Renshangren breaches this obligation and voluntarily liquidates the OPCO or if Renshangren declares bankruptcy, all or part of its assets may become subject to liens or rights of third-party creditors and we may be unable to continue to control Renshangren and may not enjoy the full economic benefits of Renshangren or the OPCO, which could adversely affect our business, financial condition and results of operations.

If we exercise the option to acquire equity ownership of Renshangren and/or the OPCO, the ownership transfer may subject us to certain limitations and costs.

Pursuant to the VIE Contractual Arrangements, Sichuan Sinco Biotech or its designated person(s) has the exclusive right to purchase all or any part of the equity interest in Renshangren from the PRC Equity Owner or all or any part of the 30% equity interest in the OPCO from Renshangren at the minimum consideration permitted under then applicable PRC laws. The equity transfer may be subject to approvals from and filings with the Ministry of Commerce or its local counterparts. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. In case that Sichuan Sinco Biotech or its designated person(s) purchases all or any part of the equity interest in Renshangren from the PRC Equity Owner, the PRC Equity Owner will be subject to PRC individual income tax on the difference between the equity interest transfer price and the amount the PRC Equity Owner has paid to obtain the 100% equity interest in Renshangren, and the PRC Equity Owner will pay the remaining amount to Sichuan Sinco Biotech under the VIE Contractual Arrangements. In case that Sichuan Sinco Biotech or its designated person(s) purchases all or any part of the 30% equity interest in the OPCO from Renshangren, Renshangren will be subject to PRC enterprise income tax on the difference between the equity interest transfer price and the amount Renshangren has paid to obtain the 30% equity interest in the OPCO, and Renshangren will pay the remaining amount to Sichuan Sinco Biotech under the VIE Contractual Arrangements. The amount to be received by Sichuan Sinco Biotech may also be subject to enterprise income tax. Our financial condition may be adversely affected by such tax amounts.

Internal control measures to be implemented by the Group

It is the intention of the Company, to implement, through Sichuan Sinco Biotech, additional internal control measures against Renshangren and the OPCO as appropriate, having regard to the internal control measures adopted by the Company from time to time, which may include but not limited to:

Management controls

- (i) the Company will appoint 2 board representatives (the “**Representatives**”) to act as directors of Renshangren and the OPCO. The Representatives are required to conduct regular reviews on the operations of Renshangren and the OPCO and shall submit the semi-annual reviews to the Board. The Representatives are also required to check the authenticity of the monthly management accounts of Renshangren and the OPCO;
- (ii) the Representatives shall be actively involved in various aspects of the daily managerial and operational activities of Renshangren and the OPCO;
- (iii) the Representatives shall report any major events of Renshangren and the OPCO to the senior management of the Company, who must in turn report to the Board;
- (iv) the senior management of the Company shall conduct regular site visits and personnel interviews regarding Renshangren and the OPCO, and shall report to the Board on a regular basis; and
- (v) all incorporation documents, all other legal documents and all seals and chops of Renshangren and the OPCO shall be delivered to Sichuan Sinco Biotech upon request.

Financial controls

- (i) the finance department of the Company, led by the Chief Financial Officer (the “**CFO**”), shall collect monthly management accounts, bank statements and cash balances and major operational data of Renshangren and the OPCO for review. Upon discovery of any suspicious matters, the CFO shall report to the Board;
- (ii) if Renshangren or the OPCO has been delayed in the payment of the services fees requested by Sichuan Sinco Biotech, the CFO must meet with the shareholder(s) of Renshangren and the OPCO to investigate, and should report any suspicious matters to the Board. In extreme cases, the registered shareholder(s) of Renshangren and the OPCO will be removed and replaced;
- (iii) Renshangren and the OPCO must submit copies of latest bank statements for every bank accounts of Renshangren and the OPCO within 15 days after the end of each month; and
- (iv) Renshangren and the OPCO must assist and facilitate the Company to conduct on-site internal audit.

Legal review

- (i) the senior management of the Company will consult the Company's PRC legal adviser from time to time to check if there are any legal developments in the PRC affecting the arrangement contemplated under the VIE Contractual Arrangements, and determine if any modification or amendment are required to be made;
- (ii) as part of the internal control measures, major issues arising from implementation and performance of the VIE Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than twice a year. The Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist the Company to deal with specific issues arising from the VIE Contractual Arrangements;
- (iii) matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by the Board on a regular basis which will be no less frequent than twice a year; and
- (iv) the relevant business units and operation divisions of the Company will report regularly, which will be no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the VIE Contractual Arrangements and other related matters.

The Board's view on the VIE Contractual Arrangements

Based on the above, the Board (including the independent non-executive Directors) is of the view that the VIE Contractual Arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and operation of the Medical Aesthetics Businesses in the PRC and are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In arriving at its opinion, the Board has considered the following principal factors and reasons:

- (i) the Group is principally engaged in provision of comprehensive marketing, promotion and channel management service for imported pharmaceutical products in the PRC, and is strenuously developing its strategic layout in the realms of medical aesthetic industry in the PRC. For purposes of the Acquisition and in order to comply with the relevant PRC laws and regulations, the Group (through Sichuan Sinco Biotech) relies on the VIE Contractual Arrangements to (a) enable Sichuan Sinco Biotech to exercise effective control over the 100% equity interest in Renshangren and the remaining 30% equity interest in the OPCO, (b) prevent leakage of equity and values to the minority shareholder of the OPCO, and (c) obtain the economic benefits derived from 100% equity interest in Renshangren and the remaining 30% equity interest in the OPCO;

- (ii) our PRC Legal Adviser is of the view that, (a) it is not uncommon for foreign company to enter into similar arrangements, such as the VIE Contractual Arrangements, in order to conduct businesses which are subject to Foreign Ownership Restriction, and (b) that subject to the requirements of the Equity Transfer Agreements the VIE Contractual Arrangements provide binding contractual relationship among Sichuan Sinco Biotech, the PRC Equity Owner, the Target Company, Renshangren and the OPCO, pursuant to which Sichuan Sinco Biotech is entitled to future economic benefits derived from 100% equity interest in Renshangren and the remaining 30% equity interest in the OPCO;
- (iii) the VIE Contractual Arrangements are narrowly tailored to achieve the Company's business purpose and has minimised the potential conflict with relevant PRC laws and regulations; and
- (iv) given that the Company is placed in a special situation to rely on the VIE Contractual Arrangements to operate the Medical Aesthetics Businesses in the PRC, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to the Company if such transactions are subject to strict compliance with Rule 14A.52 of the Listing Rules, to limit the term of the VIE Contractual Arrangements to three years or less.

Save for Mr. Huang Xiangbin (whose son being the PRC Equity Owner), none of the Directors had material interests in the transactions contemplated under the VIE Contractual Arrangements. Accordingly, save for Mr. Huang Xiangbin, who has abstained from voting, the Board (including the independent non-executive Directors) has approved the transactions contemplated under the VIE Contractual Arrangements.

Information on the Parties to the VIE Contractual Arrangements

The Group, Sinco Sichuan Biotech, the Target Company and the OPCO

The Group is principally engaged in the provision of comprehensive marketing, promotion and channel management service for imported pharmaceutical products in the PRC. The Company is an exempted company incorporated in the Cayman Islands with limited liability and the principal business activity of which being investment holding. Sichuan Sinco Biotech is a company established under the laws of the PRC with limited liability in November 2013, the principal business of which is investment holding. The Target Company is a company established under the law of the PRC with limited liability in March 2022, the principal business of which is investment holding. The OPCO is a company established under the law of the PRC with limited liability in March 2022, the principal business of which is the provision of Medical Aesthetics Businesses in the PRC. As at the date of this announcement, Sichuan Sinco Biotech and the Target Company are wholly-owned subsidiaries and the OPCO is owned as to 70% and 30% by the Target Company and Renshangren, respectively.

The PRC Equity Owner and Renshangren

The PRC Equity Owner (being Mr. Huang) is the son of Mr. Huang Xiangbin, being an executive Director, chairman of the Board and substantial shareholder of the Company and therefore a connected person of the Company under Rule 14A.12 of the Listing Rules. Renshangren is a company established under the law of the PRC with limited liability in March 2022, the principal business of which is investment holding. As at the date of the announcement, Renshangren is wholly-owned by the PRC Equity Owner. As such, Renshangren is a connected person of the Company.

Listing Rules Implications and Application for and Conditions of Waivers

The transactions contemplated under the VIE Contractual Arrangements will constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the general requirements for connected transactions including disclosures in announcements, circulars and annual reports and shareholders' approval. The Company has applied to the Stock Exchange and pending the Stock Exchange's grant of waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with the requirement of (i) the circular and independent shareholders' approval under Rule 14A.36 of the Listing Rules; (ii) limiting the term of the VIE Contractual Arrangements for a period of not exceeding three years under Rule 14A.52 of the Listing Rules; and (iii) setting an annual cap for the fees payable to Sichuan Sinco Biotech under the VIE Contractual Arrangements under Rule 14A.53 of the Listing Rules, for so long as the Shares are listed and Renshangren and the OPCO continue to be treated as the Company's subsidiaries subject to the following conditions:

- (i) **No change without independent non-executive Directors' approval:** Save for any mandatory change required under applicable laws and regulations, no changes to the terms of any of the VIE Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- (ii) **Economic benefits flexibility:** The VIE Contractual Arrangements shall continue to enable Sichuan Sinco Biotech and thus the Company to receive the economic benefits derived from 100% equity interest in Renshangren and 30% equity interest in the OPCO (and each of their subsidiaries, if then applicable), through (i) the potential right of Sichuan Sinco Biotech and the Company (if and when so permitted under the applicable PRC laws) to acquire the entire equity interest in and/or assets of Renshangren and the remaining 30% equity interest in and/or assets of the OPCO at the minimum purchase price permissible under the then applicable PRC laws and regulations, (ii) subject to the Equity Transfer Agreements, the business structure under which the entire audited net profits generated by Renshangren and 30% of the audited net profits generated by the OPCO (and each of their subsidiaries, if then applicable) is retained for the benefits of Sichuan Sinco Biotech and the Company (such that no annual caps shall be set on the amount of the services fees payable to Sichuan Sinco Biotech under the Exclusive Business Cooperation Agreements), and (iii) the right of Sichuan Sinco Biotech and the Company to control the management and operation of, as well as, in substance, all of the voting rights of Renshangren and 30% voting rights of the OPCO.

- (iii) **Renewal and reproduction:** On the basis that the VIE Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has shareholding, on one hand, and Renshangren and the OPCO, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as those of the VIE Contractual Arrangements. The directors, chief executives or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the VIE Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.
- (iv) **Ongoing reporting and approvals:** the Company will disclose details relating to the VIE Contractual Arrangements on an ongoing basis as follows:
- (a) the VIE Contractual Arrangements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;
 - (b) the independent non-executive Directors will review the VIE Contractual Arrangements annually and confirm in the Company's annual report for the relevant year that (i) the transactions carried on during such year have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and according to the VIE Contractual Arrangements on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) subject to the Equity Transfer Agreements the business structure under which the entire audited net profits generated by Renshangren and 30% of the audited net profits generated by the OPCO (and each of their subsidiaries, if then applicable) has been substantially retained for the benefits of Sichuan Sinco Biotech and the Company; (iii) no dividends or other distributions have been made by Renshangren or the OCPO to the holders of their equity interests which are not otherwise subsequently assigned or transferred to the Company; and (iv) any new contracts entered into, renewed or reproduced between the Group and Renshangren or the OPCO during the relevant financial period under condition (iii) above are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole;

- (c) the Company’s auditors will carry out procedures annually on the transactions carried on pursuant to the VIE Contractual Arrangements and will provide a letter to the Directors with a copy to the Stock Exchange confirming that no dividends or other distributions have been made by Renshangren or the OPCO to the holders of their equity interests which are not otherwise subsequently assigned or transferred to the Company; and whether anything has come to their attention that causes them to believe that the continuing connected transactions under the VIE Contractual Arrangements (i) have not been approved by the Board; and (ii) were not entered into, in all material respects, in accordance with the VIE Contractual Arrangements governing the transactions;
- (d) for the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, Renshangren and the OPCO (and each of their subsidiaries, where applicable) will be treated as the Company’s subsidiaries, but at the same time, save for the PRC Equity Owner, who is a connected person of the Company under Rule 14A.12 of the Listing Rules, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of Renshangren and the OPCO or their subsidiaries, where applicable, and their respective associates (as defined in the Listing Rules) (excluding for this purpose, Renshangren and the OPCO (and each of their subsidiaries, if then applicable)) will be treated as the Company’s connected persons at subsidiary level. As such, the transactions between these connected persons and the Group (including for this purpose, Renshangren and the OPCO (and each of their subsidiaries, if then applicable)), other than those under the VIE Contractual Arrangements, will be subject to the requirements under Chapter 14A of the Listing Rules; and
- (e) Renshangren and the OPCO undertake that, for so long as the Shares are listed on the Stock Exchange, they will provide the Company’s management and auditor with full access to their relevant records, and (where applicable) relevant records of each of their subsidiaries, for the purpose of the Company’s auditor’s procedures on the continuing connected transactions.
- (v) **No changes without the Stock Exchange approval:** Except as described in condition (iii) above, and except for changes to the terms of the VIE Contractual Arrangements in connection with any change in the PRC Equity Owner or his respective shareholding proportion in Renshangren and the OPCO or any mandatory change required under applicable laws and regulations, no changes to the terms of the VIE Contractual Arrangements will be made unless the Company applies for and obtains a separate waiver from the Stock Exchange.

The Company reminds the Shareholders and potential investors that the Stock Exchange may, in its discretion, modify or impose further conditions in respect of the waiver sought and it will make further announcement(s) in respect of such modification(s) or further condition(s) imposed if and as applicable.

Definitions

In this announcement, unless defined in the Announcement or the context otherwise requires, the following expressions shall have the following meanings:

- “Equity Pledge Agreements” two equity pledge agreements (股權質押協議) both dated 10 May 2022 (i) entered into between Sichuan Sinco Biotech, the PRC Equity Owner and Renshangren in relation of the pledge of 100% equity interest in Renshangren by the PRC Equity Owner (the “**Equity Pledge Agreement A**”) and (ii) entered into between Sichuan Sinco Biotech, Renshangren and the OPCO in relation to the pledge of 30% equity interest in the OPCO by Renshangren (the “**Equity Pledge Agreement B**”), respectively;
- “Exclusive Business Cooperation Agreements” two exclusive business cooperation agreements (獨家業務諮詢合作協議) both dated 10 May 2022 (i) entered into between Sichuan Sinco Biotech and Renshangren in relation to the exclusive services provided by Sichuan Sinco Biotech (“**Exclusive Business Cooperation Agreement A**”) and (ii) entered into between Sichuan Sinco Biotech, the OPCO, the Target Company and Renshangren in relation to the exclusive services provided by Sichuan Sinco Biotech (“**Exclusive Business Cooperation Agreement B**”), respectively;
- “Exclusive Purchase Right Agreements” two exclusive option agreements (獨家購買權協議) both dated 10 May 2022 (i) entered into between Sichuan Sinco Biotech, the PRC Equity Owner and Renshangren in relation to the grant of exclusive purchase right in respect of 100% equity interest in Renshangren by the PRC Equity Owner to Sichuan Sinco Biotech; and (ii) entered into between Sichuan Sinco Biotech, Renshangren and the OPCO in relation to the grant of exclusive purchase right in respect of 30% equity interest in the OPCO by Renshangren to Sichuan Sinco Biotech, respectively;
- “Hong Kong” the Hong Kong Special Administrative Region of the PRC;
- “Power of Attorney” the power of attorney (授權委託書) executed by the PRC Equity Owner dated 10 May 2022 granted by the PRC Equity Owner in favour of Sichuan Sinco Biotech in relation to his rights and entitlements attached to the 100% equity interest in Renshangren;
- “Share(s)” ordinary share(s) in the capital of the Company with a nominal value of HK\$0.0001 each; and

“Spousal Undertaking” the Spousal Undertaking (配偶承諾函) executed by the spouse of the PRC Equity Owner dated 10 May 2022 in relation to the undertaking provided by her in respect of the 100% equity interest in Renshangren held by the PRC Equity Owner; and

“VIE Contractual Arrangements” collectively, comprising of the Exclusive Business Cooperation Agreements, the Equity Pledge Agreements, the Exclusive Purchase Right Agreements, the Power of Attorney and the Spousal Undertaking.

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

Sichuan, the PRC, 10 May 2022

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