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Simcere Pharmaceutical Group Limited

先聲藥業集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 2096)

**CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION OF
ENTIRE EQUITY INTEREST IN THE TARGET COMPANY**

THE ACQUISITION

The Board is pleased to announce that on January 1, 2024, the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Vendor, pursuant to which the Purchaser has agreed to acquire, and the Vendor has agreed to sell, the entire equity interest in the Target Company for a cash Consideration of RMB42,306,500.

Upon completion of the Acquisition, the Target Company will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As of the date of this announcement, the Vendor is directly wholly owned by Jiangsu Medical Diagnostics, which is in turn held as to 52.66% and 7.44% by Nanjing Qiyi and Nanjing Xianqi, respectively. Nanjing Qiyi and Nanjing Xianqi are wholly owned by Mr. Ren Yong (任用) and his spouse, Ms. Li Shimeng (李詩濛), both being controlling Shareholders of the Company. As a result, the Vendor is an associate of Mr. Ren Yong and Ms. Li Shimeng and a connected person of the Company. Accordingly, the Acquisition contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company.

As the highest applicable percentage ratio in respect of the Acquisition (both on a stand-alone basis and together with the Previous Acquisition on an aggregate basis) exceeds 0.1% but is less than 5%, the Acquisition is only subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on January 1, 2024, the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Vendor, pursuant to which the Purchaser has agreed to acquire, and the Vendor has agreed to sell, the entire equity interest in the Target Company for a cash Consideration of RMB42,306,500.

Upon completion of the Acquisition, the Target Company will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Group.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarized below:

Date

January 1, 2024

Parties

- (1) Simcere Biological Pharmaceutical, an indirectly wholly-owned subsidiary of the Company, as the Purchaser; and
- (2) Jiangsu Diagnostics Technology as the Vendor.

Subject Matter

Pursuant to the Equity Transfer Agreement, the Purchaser has agreed to acquire, and the Vendor has agreed to sell, the entire equity interest in the Target Company.

The Target Company owns land use rights to a parcel of land situated at Pancheng Street, Jiangbei New Area, Nanjing, Jiangsu Province, the PRC, with a total gross site area of 36,856.84 sq.m. for industrial use purpose (the “**Target Land**”), among which a gross site area of 2,901.45 sq.m has been leased to an Independent Third Party. As of the date of this announcement, the Target Land has been used for a pharmaceutical production facility with a total gross floor area of 2,323.33 sq.m. (the “**Production Facility**”) which had completed the construction.

Consideration and basis of determination of the Consideration

Pursuant to the Equity Transfer Agreement, the Consideration is RMB42,306,500, which shall be satisfied by cash. The Consideration was arrived at after arm’s length negotiations between the Purchaser and the Vendor with reference to the appraised market value of the 100% equity interest in the Target Company as of Valuation Benchmark Date, being RMB42,306,500, as stated in the Valuation Report issued by an independent and qualified Valuer. The Valuation Report is valid until November 29, 2024. A summary of the valuation methodology and key assumptions of the Valuation Report is set out below:

Valuation Methodology

The methodology adopted for preparation of the Valuation Report is the asset-based approach. The Valuer is of the view that the asset-based approach is the most appropriate valuation approach for the valuation of the Target Company as compared to income approach or market approach for the following reasons:

- (i) the income approach is a method to quantify and discount the expected profitability of the overall assets of an enterprise, indicting the expected profitability and operational efficiency of the enterprise’s income. However, the Target Company has no actual business operations since its establishment and, as of the Valuation Benchmark Date, had no concrete operation and development plans enabling the Valuer to make a reliable forecast on its future income. Therefore, the income approach is not adopted in the valuation of the Target Company;
- (ii) the market approach is a method to appraise the value of the target asset by comparing data of objects directly originated from the real market. However, no adequate number of comparable companies is available in the current market that have identical or similar principal business and operational scale with the Target Company, nor is the Valuer able to collect and obtain comparable companies which underwent the similar merger and acquisition from the current capital market and asset trading market. As such, the market approach is not suitable for the valuation of the Target Company; and

- (iii) the asset-based approach is a method to reflect the value of an enterprise from the aspect of the enterprise's asset purchase and construction, under which the Valuer will, taking into account factors such as the accounting policies and operational conditions of the enterprise, identify all the on and off-balance sheet assets and liabilities of the assessed entity, incorporate these factors into the valuation reporting documents and request to confirm the valuation scope. The Valuer considers that the conditions and prerequisites for application of the asset-based approach have been satisfied for the valuation of the Target Company and therefore, adopted the asset-based approach for such valuation.

Key Assumptions

In determining the market value of the entire equity interest in the Target Company, the following key assumptions have been made:

(1) General assumptions

- (i) *Going concern assumption.* It is assumed that, after the benchmark date, the assessed entity will continue to operate as a going concern, and all assets of the assessed entity will remain, and can be used, on an ongoing basis;
- (ii) *Transaction assumption.* It is assumed that all assets to be appraised are already in the process of being traded, and the valuation is performed based on simulated market conditions including, without limitation, the trading conditions of the assets to be appraised; and
- (iii) *Open market assumption.* It is assumed that the parties to a trading or proposed trading of an asset in a market are on equal footing with each other, and that each party to the asset transaction has had the opportunity and time to obtain sufficient market information to enable it to make a reasonable judgement as to the asset's function, use and transaction price. The open market assumption is on the basis that the asset can be openly traded in the market.

(2) Specific assumptions

- (i) It is assumed that there are no material changes as to the currently effective laws, regulations, policies and macroeconomic environment of the PRC, and as to the political, economic and social environments of the regions where the parties to the transaction reside;

- (ii) It is assumed that there will be no material changes as to the relevant interest rates, exchange rates, tax bases and tax rates as well as policy-based levies;
- (iii) It is assumed that the scope and manner of operation of the assessed entity will remain consistent with the current direction on the basis of the existing management style and management level. The management of the assessed entity is responsible and capable of performing its duties, and the core management members are stable and have no significant adverse change. In addition, it is assumed that the assessed entity is in full compliance with all relevant laws and regulations;
- (iv) It is assumed that the accounting policies to be adopted by the assessed entity in the future are generally consistent in material respects with the accounting policies adopted by the assessed entity when preparing the valuation report; and
- (v) It is assumed that there are no other force majeure factors and unforeseeable factors that have a significant adverse impact on the assessed entity.

The book value of the total assets of the Target Company as of the Valuation Benchmark Date was RMB19,964,400, and the appraised value was RMB41,769,300, representing an appreciation of RMB21,804,900 or an appreciation rate of 109.22%. The book value of the total liabilities of the Target Company as of the Valuation Benchmark Date was RMB537,300, and the appraised value was RMB537,300, with no increase or decrease in the appraised value. The book value of the net assets of the Target Company as of the Valuation Benchmark Date was RMB20,501,600, and the appraised value was RMB42,306,500, representing an appreciation of RMB21,804,900 or an appreciation rate of 106.36%. The appreciation in the appraised value is attributable to an increase of RMB21,804,900 in the appraised value of the land use rights of the Target Land, an intangible asset, due to the continuously rising land transfer prices that are higher than the corresponding acquisition costs in recent years.

Payment Arrangement

Pursuant to the Equity Transfer Agreement, the Consideration shall be paid in cash by the Purchaser to the Vendor within 30 days after signing of the Equity Transfer Agreement. The Consideration will be funded by the internal resources of the Group.

Completion

Pursuant to the Equity Transfer Agreement, the completion of the Acquisition shall take place on the date of signing of the Equity Transfer Agreement. Within 30 days after signing of the Equity Transfer Agreement, the Vendor shall deliver to the Purchaser all documents and information necessary for the completion of the filings and registrations with respect to such equity transfer.

Upon completion of the Acquisition, the Target Company will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Group.

GENERAL INFORMATION ON THE TARGET COMPANY

The Target Company is a limited liability company established in the PRC on July 10, 2017. As of the date of this announcement, the Target Company is directly wholly owned by the Vendor.

The Target Company has no actual business operations as of the date of this announcement. The major assets of the Target Company include the land use rights of the Target Land and the Production Facility which had completed the construction.

Set out below is the unaudited financial information of the Target Company for the two years ended December 31, 2021 and 2022:

	For the year ended December 31, 2021	For the year ended December 31, 2022
	<i>RMB'000</i> (Unaudited)	
Revenue	–	–
(Loss) before taxation	(393.6)	(894.8)
(Loss) after taxation	(393.6)	(894.8)

The unaudited net assets of the Target Company as of November 30, 2023 amounted to RMB20,501,600.

The original acquisition cost for the Target Company paid by the Vendor was RMB15 million.

GENERAL INFORMATION ON THE PARTIES

Information on the Vendor

The Vendor is a limited liability company established in the PRC on June 24, 2019. As of the date of this announcement, the Vendor is directly wholly owned by Jiangsu Medical Diagnostics, which is in turn held by (a) Nanjing Qiyi and Nanjing Xianqi as to 52.66% and 7.44%, respectively, which are wholly owned by Mr. Ren Yong and his spouse, Ms. Li Shimeng, both being controlling Shareholders of the Company; (b) Nanjing Xinjiye Technology Development Co., Ltd.* (南京新基業科技發展有限公司) as to 13.39%, which is wholly owned by Mr. Ren Jinsheng (任晉生), an executive Director, the chief executive officer and a controlling Shareholder of the Company, and his spouse, Ms. Wang Xi (王熙), an executive Director of the Company; and (c) 25 institutional investors collectively as to 26.51%, among which 5.95% is held by the largest institutional investor, and the equity interest held by the other 24 institutional investors ranges from 0.01% to 2.74%. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, all of these institutional investors and their ultimate beneficial owners are Independent Third Parties. The Vendor is principally engaged in R&D, manufacturing and sales of medical device, technology consultation, development of biotechnologies, etc.

Information on the Purchaser

The Purchaser is a limited liability company established in the PRC on July 10, 2017 and an indirectly wholly-owned subsidiary of the Company. The Purchaser is principally engaged in manufacturing and sales of pharmaceutical products, research and development of biotechnologies and medical technologies as well other technology consultation and services.

Information on the Company

The Company is an innovation and R&D-driven pharmaceutical company and has established a “State Key Laboratory of Neurology and Oncology Drug Development.” The Company focuses on the therapeutic areas of oncology, nervous system, autoimmune and anti-infection, with forward-looking layout of disease areas that may have significant clinical needs in the future, aiming to achieve the mission of “providing today’s patients with medicines of the future.” Driven by its in-house R&D efforts and synergistic innovation, the Company has established strategic cooperation partnerships with many innovative companies and research institutes.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Currently, the Group has a wide variety of pipeline of product candidates in antibody pharmaceuticals and requires more production facilities to increase its production and warehousing capacity in order to align with its scale of pipeline products of antibody pharmaceuticals and the future market demands after assessment. The Group needs to make deployments and plannings in advance for its additional production facilities and warehouses in order to catch up with the pace of its future commercial launch and manufacturing of new products. The Acquisition will entitle the Group to the land use rights of the Target Land and to use Production Facility thereon which had completed the construction. Moreover, the Production Facility is just adjacent to the Group's existing production facilities which could provide convenience to the Group's centralized management. Therefore, the Company believes that it is the most cost-effective and efficient way to increase the Group's production and warehousing capacity for antibody pharmaceuticals by acquiring the Production Facility.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the Equity Transfer Agreement was entered into on arm's length basis and on normal commercial terms (although not in the ordinary and usual course of business of the Group), and that the terms of the Equity Transfer Agreement (including, but not limited to, the Consideration) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Apart from Mr. Ren Jinsheng, the chairman of the Board and an executive Director, and Ms. Wang Xi, an executive Director, who are considered to have a material interest in the Acquisition and have abstained from voting at the relevant Board resolutions approving such transaction, none of the Directors has any material interest in the Acquisition and has abstained from voting on the relevant Board resolutions.

LISTING RULES IMPLICATIONS

As of the date of this announcement, the Vendor is directly wholly owned by Jiangsu Medical Diagnostics, which is in turn held as to 52.66% and 7.44% by Nanjing Qiyi and Nanjing Xianqi, respectively. Nanjing Qiyi and Nanjing Xianqi are wholly owned by Mr. Ren Yong and his spouse, Ms. Li Shimeng, both being controlling Shareholders of the Company. As a result, the Vendor is an associate of Mr. Ren Yong and Ms. Li Shimeng and a connected person of the Company. Accordingly, the Acquisition contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company.

On November 14, 2023, in order to optimize business layout and deepen the cooperative relationship with chain pharmacy customers, Jiangsu Simcere, an indirectly wholly-owned subsidiary of the Company, entered into an equity transfer agreement to acquire 100% equity interest in Nanjing Jiayuantang from Jiangsu Xianhui, a company indirectly wholly owned by Mr. Ren Jinsheng, an executive Director, the chief executive officer and a controlling Shareholder of the Company. The total consideration for such acquisition was RMB5,022,600, which was determined after arm's length negotiations between the parties with reference to the appraised value of the entire equity interest in Nanjing Jiayuantang as valued by an independent and qualified valuer using asset-based approach. Nanjing Jiayuantang is a limited liability company established in the PRC on November 8, 2018 principally engaged in the manufacturing and sales of medical devices and other products such as health-care products.

For the avoidance of doubt, none of the applicable percentage ratios in respect of the Previous Acquisition exceeds 0.1%, and hence it was fully exempt from the requirements of reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since the Previous Acquisition and the Acquisition contemplated under the Equity Transfer Agreement are similar in nature and taking into account that Mr. Ren Jinsheng is the father of Mr. Ren Yong and the association of the ultimate controlling shareholders of Jiangsu Xianhui and the Vendor, such transactions should be aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio in respect of the Acquisition (both on a stand-alone basis and together with the Previous Acquisition on an aggregate basis) exceeds 0.1% but is less than 5%, the Acquisition is only subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the acquisition of the entire equity interest in the Target Company by the Purchaser from the Vendor pursuant to the terms of the Equity Transfer Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules

“Board”	the board of Directors
“Company”	Simcere Pharmaceutical Group Limited (先聲藥業集團有限公司) (Stock Code: 2096), a company incorporated under the laws of Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	an amount of RMB42,306,500 payable by the Purchaser to the Vendor as consideration pursuant to the Equity Transfer Agreement, as more particularly described under the paragraph headed “Consideration” in this announcement
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the equity transfer agreement entered into between the Purchaser and the Vendor on January 1, 2024 in relation to the purchase and sale of the entire equity interest in the Target Company, as more particularly described in the section headed “The Equity Transfer Agreement” in this announcement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	person(s) who is(are) third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules)
“Jiangsu Medical Diagnostics”	Jiangsu Simcere Medical Diagnostics Co., Ltd.* (江蘇先聲醫學診斷有限公司), a limited liability company established in the PRC on February 24, 2017, an associate of Mr. Ren Yong and Ms. Li Shimeng, both being controlling Shareholders of the Company, and hence a connected person of the Company

“Jiangsu Simcere”	Jiangsu Simcere Pharmaceutical Co., Ltd.* (江蘇先聲藥業有限公司), formerly known as Jiangsu Chengong Pharmaceutical Co., Ltd.* (江蘇臣功醫藥有限公司), a limited liability company established in the PRC on March 28, 1995 and an indirectly wholly-owned subsidiary of the Company
“Jiangsu Xianhui”	Jiangsu Xianhui Pharmaceutical Research and Development Co., Ltd. (江蘇先惠藥物研發有限公司), a limited liability company established in the PRC on May 10, 2018 and indirectly wholly owned by Mr. Ren Jinsheng, an executive Director, the chief executive officer and a controlling Shareholder of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Nanjing Jiayuantang”	Nanjing Jiayuantang Biotechnology Co., Ltd.* (南京佳原堂生物科技有限公司), a limited liability company established in the PRC on November 8, 2018 and acquired by Jiangsu Simcere through the Previous Acquisition
“Nanjing Qiyi”	Nanjing Qiyi Technology Co., Ltd.* (南京麒翼科技有限公司), a limited liability company established in the PRC on July 9, 2019 and wholly owned by Mr. Ren Yong and Ms. Li Shimeng, both being controlling Shareholders of the Company
“Nanjing Xianqi”	Nanjing Xianqi Enterprise Management Consulting Partnership (Limited Partnership)* (南京先麒企業管理諮詢合夥企業(有限合夥)), a limited partnership established in the PRC on September 3, 2019, with Mr. Ren Yong and Ms. Li Shimeng, both being controlling Shareholders of the Company, holding all partnership interest therein and Mr. Ren Yong being the general partner thereof

“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Previous Acquisition”	the acquisition of the entire equity interest in Nanjing Jiayuantang Biotechnology Co., Ltd.* (南京佳原堂生物科技有限公司) by Jiangsu Simcere according to an equity transfer agreement dated November 14, 2023, as more particularly described in the section headed “Listing Rules Implications” in this announcement
“Purchaser” or “Simcere Biological Pharmaceutical”	Jiangsu Simcere Biological Pharmaceutical Co., Ltd.* (江蘇先聲生物製藥有限公司), formerly known as Nanjing BioSciKin Innovation Biology Technology Co., Ltd.* (南京百家匯創新生物科技有限公司), a limited liability company established in the PRC on July 10, 2017 and an indirectly wholly-owned subsidiary of the Company
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it in the Listing Rules
“Target Company”	Nanjing BioSciKin Innovative Medical Technology Co., Ltd.* (南京百家匯創新醫療科技有限公司), a limited liability company established in the PRC on July 10, 2017, the sole shareholder of which is the Vender as of the date of this announcement
“Valuation Benchmark Date”	being November 30, 2023
“Valuation Report”	the valuation report (Su Hua Ping Bao Zi [2023] No. 000) issued by the Valuer with November 30, 2023 as the Valuation Benchmark Date

“Valuer”	Jiangsu Huaxin Asset Appraisal Co., Ltd.* (江蘇華信資產評估有限公司), an independent and qualified valuer
“Vendor” or “Jiangsu Diagnostics Technology”	Jiangsu Sincere Diagnostics Technology Co., Ltd.* (江蘇先聲診斷技術有限公司), a limited liability company established in the PRC on June 24, 2019 and a wholly-owned subsidiary of Jiangsu Medical Diagnostics
“%”	per cent

* for identification purpose

By order of the Board
Sincere Pharmaceutical Group Limited
Mr. Ren Jinsheng
Chairman and Chief Executive Officer

Hong Kong, January 1, 2024

As of the date of this announcement, the Board comprises Mr. REN Jinsheng as the Chairman and executive Director, Mr. TANG Renhong, Mr. WAN Yushan and Ms. WANG Xi as the executive Directors; Mr. SONG Ruilin, Mr. WANG Jianguo, Mr. WANG Xinhua and Mr. SUNG Ka Woon as the independent non-executive Directors.