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**Sihuan Pharmaceutical Holdings Group Ltd.**

**四環醫藥控股集團有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock code: 0460)**

## **CONNECTED TRANSACTION AND INJECTION OF CAPITAL INTO THE JOINT VENTURE COMPANY**

On 19 December 2014, Sun Moral, a wholly-owned subsidiary of the Company agreed with two investors, namely, MSPEA Health and Euromax, to inject capital into the JV Company, a company established in the BVI by Sun Moral, MSPEA Health and Euromax, being the JV Partners pursuant to the JV Agreement. The JV Company is owned as to 23.71% by Euromax, 38.14% by MSPEA Health and 38.14% by Sun Moral. The total amount of capital to be injected into the JV Company will be RMB830.70 million (equivalent to approximately HK\$1.05 billion) (“**Capital Injection**”). The Capital Injection will be contributed by the JV Partners with respect to their shareholdings in the JV Company proportionally (i.e. RMB196.97 million (equivalent to approximately HK\$250 million) by Euromax, RMB316.86 million (equivalent to approximately HK\$401 million) by MSPEA Health and RMB316.86 million (equivalent to approximately HK\$401 million) by Sun Moral).

The Capital Injection will be used by the JV Company through its subsidiaries to acquire interests in HY Hospital in the PRC.

## LISTING RULES IMPLICATIONS

Sun Moral is a wholly-owned subsidiary of the Company. Euromax is wholly-owned by Dr. Che, an executive Director and a Substantial Shareholder of the Company and thus a connected person under Chapter 14A of the Listing Rules. Therefore, the JV Agreement and Capital Injection constitute a connected transaction of the Company under the Listing Rules.

As the applicable percentage ratio in relation to the Capital Injection exceeds 0.1% but is less than 5%, the Capital Injection constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to reporting and announcement requirements but exempt from independent Shareholders' approval requirement.

## CAPITAL INJECTION

On 19 December 2014, Sun Moral, a wholly-owned subsidiary of the Company agreed with two investors, namely, MSPEA Health and Euromax, to inject capital into the JV Company, a company established in the BVI by Sun Moral, MSPEA Health and Euromax, being the JV Partners pursuant to the JV Agreement.

The Capital Injection will be contributed by the JV Partners with respect to their shareholdings in the JV Company proportionally.

### Capital Contribution

The total capital contribution to the JV Company by the respective JV Partner pursuant to the Capital Injection will be as follows:

	<b>Amount of contribution</b>	
	<i>(RMB)</i>	<i>(%)</i>
Euromax	196,970,599.80	23.71%
MSPEA Health	316,864,700.10	38.14%
Sun Moral	316,864,700.10	38.14%
Total	803,700,000	100%

The contribution will be made by Sun Moral on or before 31 December 2014 and will be funded by internal resources. The contribution by each of Sun Moral, MSPEA Health and Euromax is determined based on its respective shareholding in the JV Company.

The Capital Injection will be used by the JV Company through its subsidiaries to acquire interests in HY Hospital in the PRC.

## **JV AGREEMENT**

Euromax, MSPEA Health, Sun Moral and Dr. Che have entered into a JV Agreement in relation to their investment in the JV Company. The principal terms of the JV Agreement are set out as follows:

### **Scope of Business**

The principal business of the JV Company is making direct or indirect controlling investment in, or acquisition of, hospitals, clinics and other healthcare service assets jointly agreed to by the JV Partners that are located in the PRC or such other business or activities as may be approved by the JV Partners from time to time.

### **Board Composition and Management Structure**

The number of directors constituting the entire board of directors of the JV Company shall be five, including two directors jointly nominated by Sun Moral and Euromax; two nominees of MSPEA Health and one industry expert nominated by mutual agreement of the JV Partners, who shall have expertise in hospital management and be independent from each shareholder of the JV Company.

Sun Moral and Euromax shall have the right to jointly nominate the chief executive officer of the JV Company and each of its subsidiaries, provided that the appointment of such chief executive officer shall be subject to MSPEA Health's approval. MSPEA Health shall have the right to nominate the chief financial officer of the JV Company and each of its subsidiaries, provided that the appointment of such chief financial officer shall be subject to the approval of both Sun Moral and Euromax.

### **Limitation on transfers**

No JV Partner shall directly or indirectly sell, give, assign, hypothecate, pledge, encumber, grant a security interest in or otherwise dispose of, or suffer to exist (whether by operation of law or otherwise) any encumbrances on, any ordinary shares or other equity securities or any right, title or interest therein or thereto (including pursuant to any derivative contract or other contractual or legal arrangement having the effect of transferring any or all of the economic benefits or other rights or benefits of ownership), except in compliance with certain conditions as set out in the JV Agreement such as the right of first offer and tag-along right.

## **Other terms**

Subject to certain conditions as set out in the JV Agreement, the JV Agreement shall continue in force until the earlier to occur of the date upon which the JV Partners cease to hold any equity securities in the JV Company and any date agreed upon in writing by the JV Partners. The JV Agreement is governed by Hong Kong laws.

## **INFORMATION ON THE HY HOSPITAL**

HY Hospital of Huai'an City is the largest district-level hospital in Huaiyin District, and also the third largest hospital in Huai'an City in terms of bed count. It has been recognised as one of the best local level II general hospitals, which covers a total of 116,000 square meters and gross floor area of 56,000 square meters with bed count of 1,085 and 17 functional departments, 24 clinical medical departments, among which, the departments of general surgery and urinary surgery are the two municipal key clinical specialties. It has been able to achieve over 100% bed utilization rate for the past three years, and the hospital revenue was close to RMB400 million with over 490,000 annual outpatient visits in 2013. The population of Huai'an City is around one million, the local economic development has contributed to a surge in local medical demand, which underpins HY Hospital's critical market position in Huai'an City.

## **INFORMATION ON THE GROUP AND JV PARTNERS**

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

Euromax is wholly-owned by Dr. Che, an executive Director and a Substantial Shareholder of the Company. The principal activity of Euromax is investment holding.

Morgan Stanley Private Equity Asia is one of the leading private equity investors in Asia Pacific, having invested in the region for over 20 years. Private Equity Asia invests primarily in highly structured minority investments and control buyouts in growth-oriented companies at attractive valuations. The experienced investment team is led by senior professionals with extensive industry relationships, in-depth market knowledge and the ability to apply international investment principles within each local context. Private Equity Asia has offices in Hong Kong, Beijing, Shanghai,

Seoul, Tokyo, Mumbai and New York, and leverages the brand and unparalleled global network of Morgan Stanley to source investment intelligence and opportunities. Private Equity Asia is part of Morgan Stanley Merchant Banking & Real Estate Investing.

MSPEA Health is a special purpose vehicle set up by Morgan Stanley Private Equity Asia for the joint venture.

## **REASONS FOR AND BENEFITS OF THE JV AGREEMENT AND CAPITAL INJECTION**

As the world's second largest pharmaceutical market, China's healthcare service demand will continue to maintain a rapid growth momentum on the back of aging population, accelerating urbanization, sustainable economic growth, rising personal disposal income and improving national health awareness.

China's enormous population has entered the accelerated aging period. Compared with the allocation of medical resources in developed countries, China, with only two physicians and four hospitals beds per 1,000 people, is facing a severe shortage of healthcare service resources, and the high quality medical services have become even more scarce resources. To broaden the country's medical resources allocation and enhance their management and technical level, the government has encouraged the inflow of private capital, such as enterprises and investment companies, to participate in the investment and development of medical institutions. It also supported them with preferential policies. The JV Company has been established under such favourable environment, as a professional medical investment platform. As the JV Company's founding shareholders, the JV Partners have extended their complementary advantages in both professional expertise and resources. As a leading pharmaceutical company in China's hospital market, the Group has gained extensive experience and in-depth knowledge in the pharmaceutical industry, while Morgan Stanley Private Equity Asia, a world-renowned private equity investment fund, offers strong capabilities and a wealth of experience in investment management. With the inclusion of the established professional medical management team, the JV Company enjoys comprehensive advantages and strength. In addition, the JV Company partners with international and local advisors in the healthcare industry to broaden its industry resources and strength its medical expertise. For example, Sinophi Healthcare, our strategic partner in developing and managing hospital assets, has played important roles in the investment into HY Hospital. Sinophi's international hospital expertise, links with hospitals in the UK's National Health Service system and its strong healthcare resources will be valuable additions to the already well-run hospital asset and contribute to the JV Company's goal and commitment of bringing positive

impacts to the local healthcare providers and benefitting local residents. The successful acquisition of HY Hospital by the JV Company would showcase the comprehensive advantages enjoyed by the latter as a healthcare services investment platform.

The investment to HY Hospital is the first healthcare services investment project of the JV Company. While keep looking for high quality medical institutions, the JV Company will also consider investing in and building institutions with special characteristics.

As the main investor of the JV Company, the Group, apart from obtaining long-term and stable investment returns, will also see strong significance and prospects between its product resources and invested healthcare institutions, in addition to reaping benefits from integrated management.

In light of above, the Directors (including the independent non-executive Directors) are of the view that the JV Agreement and the Capital Injection have been negotiated on an arm's length basis, agreed on normal commercial terms, and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Sun Moral is a wholly-owned subsidiary of the Company. Euromax is wholly-owned by Dr. Che, an executive Director and a Substantial Shareholder of the Company and thus a connected person under Chapter 14A of the Listing Rules. Therefore, the Capital Injection constitutes a connected transaction of the Company under the Listing Rules.

As the applicable percentage ratio in relation to the Capital Injection exceeds 0.1% but is less than 5%, the JV Agreement and the Capital Injection constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to reporting and announcement requirements but exempt from independent Shareholders' approval requirement.

As Dr. Che is a connected person of the Company having a material interest in the JV Agreement, Dr. Che abstained from voting on the Board resolution of the Company to approve the JV Agreement and the Capital Injection. Apart from Dr. Che, no other Director is required to abstain from voting on the Board resolution of the Company to approve the JV Agreement and the Capital Injection.

## DEFINITION

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

“Board”	the board of Directors
“BVI”	British Virgin Islands
“Company”	SiHuan Pharmaceutical Holdings Group Ltd. (四環醫藥控股集團有限公司), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Che”	Dr. Che Fengsheng, the executive Director and chairman of the Company
“Euromax”	Euromax Holdings Limited, a limited liability company incorporated in the BVI which is wholly-owned by Dr. Che
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HY Hospital”	Huaiyin Hospital Holdco* (淮南市淮陰醫院投資管理有限公司), a company established in the PRC
“Independent Third Party(ies)”	An individual(s) or a company(ies) who or which is (are) independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive or Substantial Shareholders, of the Company, its subsidiaries or any of their respective associate(s)
“JV Agreement”	the shareholders’ agreement (as amended) among MSPEA, Sun Moral, Dr. Che and Euromax

“JV Company”	Renfang Medical Holdings Ltd., a limited liability company incorporated in the BVI pursuant to the JV Agreement
“JV Partner(s)”	the party(ies) to the JV Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MSPEA Health”	MSPEA Health Holding B.V., an Independent Third Party
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 in the issued and paid-up capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Sun Moral”	Sun Moral International (HK) Ltd. (耀忠國際(香港)有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“%”	per cent

*\* for identification purpose only*

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

Hong Kong, 22 December 2014

*As at the date of this announcement, the executive directors of the Company are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer) and Mr. Meng Xianhui; the non-executive directors of the Company are Dr. Zhang Jionglong and Mr. Homer Sun; and the independent non-executive directors of the Company are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun.*