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CanSino Biologics Inc.

康希諾生物股份公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 6185)

DISCLOSEABLE TRANSACTION CAPITAL INCREASE IN A SUBSIDIARY

THE CAPITAL INCREASE

On May 17, 2021, the Company, Shanghai Sunway Biotech and CanSino SPH entered into the Agreement in relation to the Capital Increase in CanSino SPH (a joint venture formed pursuant to the JV Agreement), pursuant to which, the Company and Shanghai Sunway Biotech agreed to increase the registered capital of CanSino SPH from RMB100,000,000 to RMB1,204,890,000 by way of capital contribution of an amount of RMB555,000,000 and RMB549,890,000 into CanSino SPH by the Company and Shanghai Sunway Biotech, respectively.

Prior to the Capital Increase, CanSino SPH was owned as to 45% by the Company, 40% by Shanghai Sunway Biotech and 15% by Industry Investment Fund, and was a subsidiary of the Company as a result of a concert party agreement entered into by and between the Company and Industry Investment Fund. Upon completion of the Capital Increase, CanSino SPH will be owned as to approximately 49.8% by the Company, approximately 49.0% by Shanghai Sunway Biotech and approximately 1.2% by Industry Investment Fund and will remain as a subsidiary of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As the Agreement and the JV Agreement were entered into by the Company with Shanghai Sunway Biotech in respect of CanSino SPH and took place within a 12-month period, the transactions thereunder shall be aggregated as a single series of transactions pursuant to Rule 14.22 of the Listing Rules. As one or more applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Capital Increase exceed 5% but are less than 25%, the Capital Increase constitutes, on a standalone basis and upon aggregation with the transactions in respect of formation of CanSino SPH under the JV Agreement in accordance with Rule 14.22 of the Listing Rules, a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. For avoidance of doubt, all of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules in respect of the formation of CanSino SPH under the JV Agreement are less than 5%, and therefore the formation of CanSino SPH on a standalone basis did not constitute a discloseable transaction of the Company and was not subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As of the date of this announcement, CanSino SPH is an insignificant subsidiary of the Company. As Shanghai Sunway Biotech holds 40% equity interest in CanSino SPH as of the date of this announcement, it is a substantial shareholder of an insignificant subsidiary of the Company, and therefore notwithstanding Shanghai Sunway Biotech's interest in CanSino SPH, Shanghai Sunway Biotech and its ultimate beneficial owners are not regarded as connected persons of the Company pursuant to Rule 14A.09 of the Listing Rules. Therefore, the Capital Increase does not constitute a connected transaction under Chapter 14A of the Listing Rules.

The put options granted by the Company to Shanghai Sunway Biotech and Industry Investment Fund under the exit mechanism of the JV Agreement involve the Company granting an option to dispose of assets and therefore constitute options under Rule 14.72 of the Listing Rules. As the exercise of such put options is not at the Company's discretion, the grant of such put options by the Company will be classified as if the options had been exercised under Rule 14.74(1) of the Listing Rules. However, the grant of put options is not classified as a major transaction, because neither the formation of CanSino SPH nor the Capital Increase constitutes a major transaction to the Company, and the exercise price of the put options had not been determined at the time of either the formation of CanSino SPH or the Capital Increase, the shareholders of the Company would have little information to make an informed decision even if the grant of the put options was classified as a major transaction. The Company will comply with, inter alia, the reporting, announcement, and shareholders' approval requirements under Chapter 14 of the Listing Rules if, at the time of exercising the put options, one or more applicable percentage ratios exceed 25%.

INTRODUCTION

On May 17, 2021, the Company, Shanghai Sunway Biotech and CanSino SPH entered into the Agreement in relation to the Capital Increase in CanSino SPH (a joint venture formed pursuant to the JV Agreement), pursuant to which, the Company and Shanghai Sunway Biotech agreed to increase the registered capital of CanSino SPH from RMB100,000,000 to RMB1,204,890,000 by way of capital contribution of an amount of RMB555,000,000 and RMB549,890,000 into CanSino SPH by the Company and Shanghai Sunway Biotech, respectively.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date: May 17, 2021

Parties: (a) the Company;
(b) Shanghai Sunway Biotech; and
(c) CanSino SPH.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Shanghai Sunway Biotech and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons as of the date of the announcement.

Subject Matter

The Company and Shanghai Sunway Biotech agreed to inject capital into CanSino SPH in an aggregate amount of RMB1,104,890,000 and that the registered capital of CanSino SPH shall be increased from RMB100,000,000 to RMB1,204,890,000 by way of capital injection to be contributed by each of the Company and Shanghai Sunway Biotech as follows:

	Amount of capital injection under Capital Increase (RMB)
The Company	555,000,000
Shanghai Sunway Biotech	<u>549,890,000</u>
Total	<u><u>1,104,890,000</u></u>

The following table illustrates the shareholding structure of CanSino SPH as of the date of this announcement and immediately following the completion of the Capital Increase.

	As of the date of this announcement		Immediately following the completion of the Capital Increase	
	Total amount of contribution in CanSino SPH (RMB)	Percentage shareholding	Total amount of contribution in CanSino SPH (RMB)	Percentage shareholding
The Company	45,000,000	45%	600,000,000	49.8%
Shanghai Sunway Biotech	40,000,000	40%	589,890,000	49.0%
Industry Investment Fund	<u>15,000,000</u>	<u>15%</u>	<u>15,000,000</u>	<u>1.2%</u>
Total	<u><u>100,000,000</u></u>	<u><u>100%</u></u>	<u><u>1,204,890,000</u></u>	<u><u>100%</u></u>

The total amount of the capital contribution by the parties, including the amount to be contributed under the Capital Increase, were determined after arm's length negotiations between the parties with reference to various factors including the business nature, operational needs, future development plan and funding demands of CanSino SPH.

Payment

The Company and Shanghai Sunway Biotech shall pay their corresponding capital injection amount in cash in a lump sum at the date of completion of the Capital Increase, which is fifteen (15) business days from the date on which all the conditions precedent contemplated under the Agreement are fulfilled or waived in writing by the parties, or such other period as agreed otherwise by the parties.

Purpose of the capital injected in CanSino SPH

The capital injection of RMB1,104,890,000 will be used in the main businesses of CanSino SPH in accordance with the purpose agreed by the Company, Shanghai Sunway Biotech and Industry Investment Fund.

Effectiveness of the Agreement

The Agreement shall take effect upon fulfillment of each of the following:

- (a). the parties have duly signed the Agreement;
- (b). each of the Company and Shanghai Sunway Biotech has completed its internal approval procedures (including but not limited to shareholders' approval, if applicable);
- (c). Shanghai Sunway Biotech has completed filing of the Capital Increase and its valuation to relevant state-owned assets management authorities.

Conditions Precedent

The completion of the Capital Increase and the payment obligations of the Company and Shanghai Sunway Biotech are conditional upon the fulfillment of each of the following conditions precedent:

- (a). all internal and external authorizations, consents, approvals (where applicable) necessary for the completion of the Capital Increase have been obtained and remain valid, including but not limited to board resolutions of the existing shareholders of CanSino SPH approving the signing of the Agreement and the contemplated transactions thereunder and completion of the filing of the Capital Increase and its valuation to relevant state-owned assets management authorities;
- (b). all transaction documents in respect of the Capital Increase have been signed by the relevant parties, each of the Company and Shanghai Sunway Biotech has received all the originals of the signed transaction documents, and the Agreement has come into effect;
- (c). until the date of completion of the Capital Increase contemplated under the Agreement, neither party thereto has violated its obligations or commitments under the Agreement, and the representations and warranties made by the parties under the Agreement are true, accurate and complete;
- (d). as of the date of completion of the Capital Increase contemplated under the Agreement, there are no substantial legal obstacles to the implementation of the Agreement, and the governmental authorities and other competent authorities have not issued any order to ban on the transaction contemplated under the Agreement;
- (e). the existing shareholders of CanSino SPH have paid in all the registered capital of CanSino SPH that they agreed to subscribe at the time of the establishment of CanSino SPH;

- (f). each of the technology license agreement and a term sheet in respect of the contract manufacturing arrangements between the Company and CanSino SPH (as described in the section headed “Reasons for and Benefits of the Agreement” set out hereunder) is signed by CanSino SPH and the Company and becomes effective, and no violation of the technology license agreement by CanSino SPH; and
- (g). the manufacture base of CanSino SPH obtains construction permits.

INFORMATION ON CANSINO SPH

General Information of CanSino SPH

CanSino SPH is a limited liability company established in the PRC in February 2021 pursuant to the JV Agreement, and is principally engaged in the research, development and manufacture of vaccines and other biomedical products. Prior to the Capital Increase, CanSino SPH was owned as to 45% by the Company, 40% by Shanghai Sunway Biotech and 15% by Industry Investment Fund, and was a subsidiary of the Company as a result of a concert party agreement entered into by and between the Company and Industry Investment Fund. Upon completion of the Capital Increase, CanSino SPH will be owned as to approximately 49.8% by the Company, approximately 49.0% by Shanghai Sunway Biotech and approximately 1.2% by Industry Investment Fund and will remain as a subsidiary of the Company.

The net asset value of CanSino SPH as of March 31, 2021 as set out in its management accounts was RMB97 million, and pursuant to a valuation report prepared by an independent PRC qualified valuer using the cost approach (asset-based approach), the valuation of the net assets of CanSino SPH as of the valuation benchmark date (being February 19, 2021) is RMB100 million. As CanSino SPH was established in February 2021, the net profits before and after taxation of CanSino SPH for the two financial years immediately preceding the Capital Increase are not applicable.

Exit Mechanism

Under the JV Agreement, upon occurrence of certain events that, inter alia, (a) if the Company is in default, due to which the purpose of the joint venture cannot be realized; and (b) CanSino SPH is not able to obtain the applicable approvals such as drug manufacture license from competent authorities for the manufacture of Ad5-nCoV within a specified timeline without any fault on the part of Shanghai Sunway Biotech or Industry Investment Fund, each of Shanghai Sunway Biotech or the Industry Investment Fund is entitled to terminate the Agreement by way of exercising a put option (a) requesting the Company to acquire a part or all of the equity interest held by Shanghai Sunway Biotech or Industry Investment Fund in CanSino SPH, at a price to be determined after taking account of an evaluation to be conducted by an independent third party valuer, or (b) requesting the Company to acquire (in the case of the events other than the default) the equity interest held by it in CanSino SPH, at a price no more than the then assets value (after depreciation and amortization) of CanSino SPH, subject to relevant requirements by the state-owned assets management authorities (if applicable).

Under the JV Agreement, upon occurrence of certain events that, inter alia, (a) if either Shanghai Sunway Biotech or Industry Investment Fund is in default, due to which the purpose of the joint venture cannot be realized; and (b) CanSino SPH is not able to obtain the applicable approvals such as drug manufacture license from competent authorities for the manufacture of Ad5-nCoV within a specified timeline without any fault on the part of the Company, the Company is entitled to terminate the Agreement by way of (a) exercising a call option to buy out all the equity interest held by Shanghai Sunway Biotech in CanSino SPH, at a price no more than the then assets value (after depreciation and amortization) of CanSino SPH, subject to relevant requirements by the state-owned assets management authorities; or (b) exercising a put option requesting the defaulting party (in the case of default) to acquire a part or all of the equity interest held by it in CanSino SPH, at a price to be determined after taking account of an evaluation to be conducted by an independent third party valuer.

INFORMATION ON THE PARTIES

The Company

The Company is dedicated to exploring best solutions to the prevention of infectious diseases through engaging in research & development, manufacturing and commercialization of high quality vaccine products for human use worldwide.

Shanghai Sunway Biotech

Shanghai Sunway Biotech is a limited liability company incorporated in the PRC and is a wholly owned subsidiary of Shanghai Pharmaceuticals Holding Co., Ltd. * (上海醫藥集團股份有限公司), which is a joint stock company incorporated in the PRC with limited liability and the shares of which are listed on the Shanghai Stock Exchange (stock code: 601607) and on the Main Board of the Stock Exchange (stock code: 02607). Shanghai Sunway Biotech is mainly engaged in research and development, manufacture and sales of biogenic engineering medicines. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Shanghai Sunway Biotech and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons as of the date of the announcement.

REASONS FOR AND BENEFITS OF THE AGREEMENT

Pursuant to the JV Agreement entered into by and between the Company, Shanghai Sunway Biotech and Industry Investment Fund in January 2021, CanSino SPH is expected to be engaged in the research, development and manufacture of vaccines and other biomedical products. In view of the worldwide needs of Ad5-nCoV following its commercialization, the Company intends to utilize CanSino SPH as its manufacture base in Shanghai with an annual capacity of no less than 200 million doses for the manufacture and supply of Ad5-nCoV. The capital to be contributed by the Company and Shanghai Sunway Biotech under the Capital Increase is expected to be used to upgrade the manufacture facilities, hire technical and manufacture personnel, procure manufacture machines and equipment, and purchase raw materials, which will allow CanSino SPH to rapidly build up its manufacture lines and hire sufficient experienced personnel for the manufacture of Ad5-nCoV, so as to meet the worldwide needs of COVID-19 vaccines. The Capital Increase is expected to enhance the capital structure of CanSino SPH for it to meet its construction and operational needs.

In addition, to facilitate the supply of Ad5-nCoV and meet the needs of Ad5-nCoV worldwide, on the date of this announcement, the Company and CanSino SPH has also entered into a term sheet in respect of the contract manufacturing arrangements between the Company and CanSino SPH, as well as a technology license agreement, pursuant to which CanSino SPH is expected to manufacture Ad5-nCoV for the Company within a certain period, subject to applicable laws and regulations as well as the approvals by relevant regulatory authorities.

The Directors (including the independent non-executive Directors) consider that the Agreement was entered under on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

LISTING RULES IMPLICATION

As the Agreement and the JV Agreement were entered into by the Company with Shanghai Sunway Biotech in respect of CanSino SPH and took place within a 12-month period, the transactions thereunder shall be aggregated as a single series of transactions pursuant to Rule 14.22 of the Listing Rules. As one or more applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Capital Increase exceed 5% but are less than 25%, the Capital Increase constitutes, on a standalone basis and upon aggregation with the transactions in respect of formation of CanSino SPH under the JV Agreement in accordance with Rule 14.22 of the Listing Rules, a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. For avoidance of doubt, all of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules in respect of the formation of CanSino SPH under the JV Agreement are less than 5%, and therefore the formation of CanSino SPH on a standalone basis did not constitute a discloseable transaction of the Company and was not subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As of the date of this announcement, CanSino SPH is an insignificant subsidiary of the Company. As Shanghai Sunway Biotech holds 40% equity interest in CanSino SPH as of the date of this announcement, it is a substantial shareholder of an insignificant subsidiary of the Company, and therefore notwithstanding Shanghai Sunway Biotech's interest in CanSino SPH, Shanghai Sunway Biotech and its ultimate beneficial owners are not regarded as connected persons of the Company pursuant to Rule 14A.09 of the Listing Rules. Therefore, the Capital Increase does not constitute a connected transaction under Chapter 14A of the Listing Rules.

The put options granted by the Company to Shanghai Sunway Biotech and Industry Investment Fund under the exit mechanism of the JV Agreement involve the Company granting an option to dispose of assets and therefore constitute options under Rule 14.72 of the Listing Rules. As the exercise of such put options is not at the Company's discretion, the grant of such put options by the Company will be classified as if the options had been exercised under Rule 14.74(1) of the Listing Rules. However, the grant of put options is not classified as a major transaction, because neither the formation of CanSino SPH nor the Capital Increase constitutes a major transaction to the Company, and the exercise price of the put options had not been determined at the time of either the formation of CanSino SPH or the Capital Increase, the shareholders of the Company would have little information to make an informed decision even if the grant of the put options was classified as a major transaction. The Company will comply with, inter alia, the reporting, announcement, and shareholders' approval requirements under Chapter 14 of the Listing Rules if, at the time of exercising the put options, one or more applicable percentage ratios exceed 25%.

DEFINITION

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

“Ad5-nCoV”	Recombinant Novel Coronavirus Vaccine (Adenovirus Type 5 Vector)
“Agreement”	the capital increase agreement dated May 17, 2021 entered into by and between the Company, Shanghai Sunway Biotech and CanSino SPH in respect of the Capital Increase
“CanSino SPH”	上海上藥康希諾生物製藥有限公司(CanSino SPH Biologics Inc.), a limited liability Company established in the PRC in February 2021 pursuant to the JV Agreement and a subsidiary of the Company as of the date of this announcement
“Capital Increase”	the increase of the registered capital of CanSino SPH by way of injecting capital in an aggregate amount of RMB1,104,890,000 by the Company and Shanghai Sunway Biotech
“Company”	CanSino Biologics Inc. (康希諾生物股份公司), a joint stock company incorporated in the PRC with limited liability on February 13, 2017, the H shares of which are listed on the Main Board of the Stock Exchange (stock code: 6185) and the A shares of which are listed on Sci-Tech Innovation Board of the Shanghai Stock Exchange (stock code: 688185)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the directors of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Industry Investment Fund”	上海生物醫藥產業股權投資基金合夥企業(有限合夥), (Shanghai Biomedical Industry Equity Investment Fund Partnership (Limited Partnership)), an existing shareholder of CanSino SPH and an independent third party of the Company as of the date of the announcement, the general partner of which is 上海生物醫藥產業股權投資基金管理有限公司(Shanghai Biomedical Industry Equity Investment Fund Co., Ltd.)
“JV Agreement”	a joint venture agreement entered into by and among the Company, Shanghai Sunway Biotech and Industry Investment Fund in January 2021 in respect of the formation of CanSino SPH
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Sunway Biotech”	上海三維生物技術有限公司(Shanghai Sunway Biotech Co., Ltd.), a wholly owned subsidiary of Shanghai Pharmaceuticals Holding Co., Ltd.* (上海醫藥集團股份有限公司) and an independent third party of the Company as of the date of the announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board
CanSino Biologics Inc.
Xuefeng YU
Chairman

Hong Kong, May 17, 2021

As at the date of this announcement, the board of Directors of the Company comprises Dr. Xuefeng YU, Dr. Shou Bai CHAO, Dr. Tao ZHU and Dr. Dongxu QIU as executive Directors, Mr. Qiang XU, Mr. Liang LIN, Ms. Nisa Bernice Wing-Yu LEUNG and Mr. Zhi XIAO as non-executive Directors, and Mr. Shiu Kwan Danny WAI, Ms. Zhu XIN, Mr. Shuifa GUI and Mr. Jianzhong LIU as independent non-executive Directors.

* *For identification purpose only*