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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Traditional Chinese Medicine Holdings Co. Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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国药集团
SINOPHARM

CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED

中國中藥控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 570)

**(1) RENEWAL OF EXISTING ANNUAL CAPS
FOR CONTINUING CONNECTED TRANSACTIONS;
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to China Traditional Chinese Medicine Holdings Co. Limited



Optima Capital Limited

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



Gram Capital Limited
嘉林資本有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 4 to 14 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on page 15 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 32 of this circular.

A notice convening the EGM to be held at Conference Room, 8th Floor, East Plaza, 15 West 4th Ring Road North, Hadian District, Beijing, China on Friday, 17 January 2020 at 3:30 p.m. is set out on pages EGM-1 and EGM-2 of this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

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DEFINITIONS

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

“Agreements”	together, the New Master Purchase Agreement and New Master Supply Agreement
“Annual Caps”	the respective annual caps of the value of the Purchases and the Sales contemplated under the Agreements proposed for the three financial years ending 31 December 2020, 2021 and 2022
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission
“CNPGC”	China National Pharmaceutical Group Co., Ltd. (中國醫藥集團有限公司), a state-owned enterprise established in the PRC
“CNPGC Group”	CNPGC and its subsidiaries
“Company”	China Traditional Chinese Medicine Holdings Co. Limited 中國中藥控股有限公司, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 570)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Agreements (including the Annual Caps) by the Independent Shareholders
“Existing Master Purchase Agreement”	the existing master purchase agreement dated 18 November 2016 entered into between the Company and CNPGC in respect of the purchase of the Materials and equipment by the Group from the CNPGC Group
“Existing Master Supply Agreement”	the existing master supply agreement dated 18 November 2016 entered into between the Company and CNPGC in respect of the sale of the Products by the Group to the CNPGC Group

DEFINITIONS

“Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements (including the Annual Caps)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Xie Rong, Mr. Qin Ling and Mr. Li Weidong (except Mr. Yu Tze Shan Hailson who has material interest in the Agreements), established for the purpose of advising the Independent Shareholders on the Agreements (including the Annual Caps)
“Independent Shareholders”	the Shareholders other than CNPGC and its associates
“Latest Practicable Date”	24 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Materials”	the TCM and chemical materials purchased by the Group from the CNPGC Group
“New Master Purchase Agreement”	the master purchase agreement dated 20 November 2019 entered into between the Company and CNPGC in respect of the Purchases for the three financial years ending 31 December 2020, 2021 and 2022
“New Master Supply Agreement”	the master supply agreement dated 20 November 2019 entered into between the Company and CNPGC in respect of the Sales for the three financial years ending 31 December 2020, 2021 and 2022
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macao Special Administrative Region and Taiwan

DEFINITIONS

“Products”	various pharmaceutical products manufactured and supplied by the Group to the CNPGC Group
“Purchases”	the purchases of the Materials and equipment from the CNPGC Group
“Sales”	the sales of the Products to the CNPGC Group
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
“Share(s)”	the ordinary share(s) in the share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Share(s)
“Sinopharm Hongkong”	Sinopharm Group Hongkong Co., Limited (國藥集團香港有限公司), a company incorporated in Hong Kong with limited liability and the controlling Shareholder
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TCM”	traditional Chinese medicine
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

LETTER FROM THE BOARD



国药集团
SINOPHARM

CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED
中國中藥控股有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

Executive Directors:

Mr. WU Xian (*Chairman*)
Mr. WANG Xiaochun (*Managing Director*)
Mr. YANG Wenming

Non-executive Directors:

Mr. YANG Shanhua
Ms. LI Ru
Mr. YANG Binghua
Mr. WANG Kan
Mr. KUI Kaipin

Independent non-executive Directors:

Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

Registered office:

Room 1601
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

28 December 2019

To the Shareholders

Dear Sir or Madam,

**RENEWAL OF EXISTING ANNUAL CAPS
FOR CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 20 November 2019 in relation to the entering into of the New Master Purchase Agreement and the New Master Supply Agreement, which govern the terms of the Purchases and the Sales respectively for the three financial years ending 31 December 2020, 2021 and 2022.

LETTER FROM THE BOARD

As one or more of the applicable percentage ratios in respect of the Annual Caps under the New Master Purchase Agreement and the New Master Supply Agreement, when aggregated, exceed 5%, the entering into of the Agreements is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the Agreements (including the Annual Caps) by way of poll. The Independent Board Committee has been established to advise the Independent Shareholders on the Agreements (including the Annual Caps). Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Agreements (including the Annual Caps).

The purpose of this circular is to provide you with (i) further details of the Agreements and the Annual Caps; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Agreements (including the Annual Caps); (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the Agreements (including the Annual Caps); and (iv) a notice of the EGM.

THE NEW MASTER PURCHASE AGREEMENT

Date

20 November 2019

Parties

- (i) The Company; and
- (ii) CNPGC.

CNPGC is a state-owned enterprise established in the PRC and is principally engaged in the wholesale of pharmaceutical products and biological products. It is the parent company of Sinopharm Hongkong, which is the controlling Shareholder holding 1,634,705,642 Shares, representing approximately 32.46% of the total number of issued Shares as at the Latest Practicable Date. Accordingly, CNPGC is a connected person of the Company.

Subject matter

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase the Materials and equipment to be supplied by the CNPGC Group during the period from 1 January 2020 to 31 December 2022. The terms of the Purchases shall adhere to the following principles:

LETTER FROM THE BOARD

- (i) the terms of the Purchases (including prices, discounts, credit period and payment terms) shall be fair and reasonable and on normal commercial terms, and no less favourable to the Group than those available to the Group from independent third parties; and
- (ii) the prices of the Materials and equipment shall be determined based on the prevailing market prices.

For details of the internal control procedures to ensure strict adherence to the above principles, please refer to the section headed “Internal Controls” below.

The Materials and equipment

The Materials are major TCM and chemical materials used to manufacture pharmaceutical products of the Group, including but not limited to vitro cultivation calculus bovis (體外培育牛黃), pangolin scales (炮山甲), chlorpheniramine maleate (馬來酸氯苯那敏), artificial musk (人工麝香), atractylodes (白朮) and resina draconis (血竭). The equipment to be supplied by the CNPGC Group are the concentrated TCM granules dispensing machine for the Group’s business use.

Conditions precedent

The New Master Purchase Agreement is conditional upon the fulfilment of the following conditions:

- (i) the passing of the resolution(s) by the Independent Shareholders at the EGM to approve the New Master Purchase Agreement and the transactions contemplated thereunder and the Annual Caps for the Purchases as required under the Listing Rules;
- (ii) the board of directors and/or shareholders of CNPGC having approved the New Master Purchase Agreement in accordance with its articles of association (if applicable); and
- (iii) other regulatory approval (if any) applicable to the Company and CNPGC in relation to the New Master Purchase Agreement having been obtained.

None of the above conditions can be waived. As at the Latest Practicable Date, condition (ii) and (iii) set out above had been fulfilled.

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Annual Caps

Pursuant to the New Master Purchase Agreement, the value of the Purchases shall not exceed the Annual Caps set out below:

Financial year ending	RMB
31 December 2020	55,000,000
31 December 2021	63,000,000
31 December 2022	70,000,000

For the two years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, the transaction values of the Purchases amounted to approximately RMB22.6 million, RMB26.0 million and RMB14.2 million respectively. For the purpose of determining the Annual Caps for the Purchases for each of the three years ending 31 December 2020, 2021 and 2022, the Company has considered (i) the historical values and growth trend of the Purchases; (ii) the expected growth in demand of the Materials to be supplied by the CNPGC Group of about 10% to 20% per annum based on the production plan of the Group; (iii) the expected additional purchases of around RMB20 million per annum from the CNPGC Group for certain Materials which were used to be purchased from independent suppliers; and (iv) the expected purchase of equipment of approximately RMB3 million per annum for the Group's business use.

The expected additional purchases referred to in (iii) above relate to certain Materials which were used to be purchased by the Group from independent suppliers. However, given the volatile price or limited supply of such Materials, the Group intends to purchase them from the CNPGC Group which is able to offer a stable and quality supply at price no less favourable than other suppliers in the future.

During the two years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, the Group purchased artificial musk which is exclusively supplied by the CNPGC Group. The CNPGC Group is the exclusive supplier of artificial musk in the PRC and the standard price of artificial musk set by the CNPGC Group is applicable to all customers. The expected purchase of the artificial musk represents approximately 10% to 12% of the Annual Caps for the Purchases for each of the three years ending 31 December 2020, 2021 and 2022. The Company does not expect to purchase other materials which are exclusively supplied by the CNPGC Group in the coming three years ending 31 December 2020, 2021 and 2022.

THE NEW MASTER SUPPLY AGREEMENT

Date

20 November 2019

LETTER FROM THE BOARD

Parties

- (i) The Company; and
- (ii) CNPGC.

Subject matter

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the Products to the CNPGC Group during the period from 1 January 2020 to 31 December 2022. The terms of the Sales shall adhere to the following principles:

- (i) the terms of the Sales (including prices, discounts, credit period and payment terms) shall be fair and reasonable and on normal commercial terms, and no less favourable to the Group than those offered by the Group to independent third parties; and
- (ii) the prices of the Products shall be determined based on the prevailing market prices.

For details of the internal control procedures to ensure strict adherence to the above principles, please refer to the section headed “Internal Controls” below.

The Products

The Products are major products manufactured by the Group, including but not limited to concentrated TCM granules products, TCM decoction pieces, Xianling Gubao Capsules and Tablets (仙靈骨葆膠囊及片劑), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Weimaining Capsules (威麥寧膠囊), Bi Yan Kang Tablet (鼻炎康片), Zaoren Anshen Capsules (棗仁安神膠囊), Niu Huang Shangqing Wan (牛黃上清丸), Group A Streptococcus for injection (Sha Pei Lin) (注射用A群鏈球菌(沙培林)), Fengshi Gutong Capsules (風濕骨痛膠囊), Trionycis Bolus (鱉甲煎丸) and Nifedipine Sustained-release tablets (Sheng Tong Ping) (硝苯地平緩釋片(聖通平)).

Conditions precedent

The New Master Supply Agreement is conditional upon the fulfilment of the following conditions:

- (i) the passing of the resolution(s) by the Independent Shareholders at the EGM to approve the New Master Supply Agreement and the transactions contemplated thereunder and the Annual Caps for the Sales as required under the Listing Rules;
- (ii) the board of directors and/or shareholders of CNPGC having approved the New Master Supply Agreement in accordance with its articles of association (if applicable); and

LETTER FROM THE BOARD

- (iii) other regulatory approval (if any) applicable to the Company and CNPGC in relation to the New Master Supply Agreement having been obtained.

None of the above conditions can be waived. As at the Latest Practicable Date, condition (ii) and (iii) set out above had been fulfilled.

Annual Caps

Pursuant to the New Master Supply Agreement, the value of the Sales shall not exceed the Annual Caps set out below:

Financial year ending	RMB
31 December 2020	1,200,000,000
31 December 2021	1,450,000,000
31 December 2022	1,700,000,000

For the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, the transaction values of the Sales amounted to approximately RMB382.4 million, RMB760.1 million and RMB422.6 million respectively. For the purpose of determining the Annual Caps for the Sales for each of the three years ending 31 December 2020, 2021 and 2022, the Company has considered (i) the historical values and growth trend of the Sales; (ii) the expected growth in demand of the Products from the CNPGC Group of about 10% to 20% per annum for finished drugs, about 10% to 40% per annum for decoction pieces and about 20% to 50% per annum for concentrated granules driven by organic growth as well as additional production capacity of more than 15,000 tonnes of concentrated granules and more than 20,000 tonnes of decoction pieces from new production lines of the Group to be established in 2020 or later in order to satisfy the expected growth in demand as mentioned above; and (iii) the launch of high-end decoction pieces by the Group in 2020 and the expected robust growth in the later years. Set out below are the estimated proportion of each of finished drugs, concentrated granules, decoction pieces and high-end decoction pieces in relation to the Annual Caps for the Sales in the coming three years:

	For the year ending 31 December		
	2020	2021	2022
Finished drugs	59.5%	53.8%	50.7%
Concentrated granules	17.2%	17.0%	17.6%
Decoction pieces	14.5%	13.5%	12.6%
High-end decoction pieces	<u>8.8%</u>	<u>15.7%</u>	<u>19.1%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENTS

The principal business activities of the Group are the manufacture and sale of TCM and pharmaceutical products in the PRC with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces.

LETTER FROM THE BOARD

The Agreements were entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the business opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is a large state-owned pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Its core businesses are pharmaceutical distribution, pharmaceutical scientific research and manufacture of medical and biotech products. Members of the CNPGC Group have been the suppliers of the Materials and customers of the Products since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity and a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality supply of the Materials and the equipment for its business use, while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. As CNPGC is one of the largest pharmaceutical companies in the PRC and has a long-term relationship with the Group, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC via the CNPGC Group as the Group's distributor.

Based on the above, the Directors (excluding the independent non-executive Directors who will express their view after having considered the advice from Gram Capital) are of the view that the terms of the Agreements are fair and reasonable and the entering into of the Agreements is in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROLS

Internal controls for the Purchases

In accordance with the Group's procurement policy (applicable to purchases from the CNPGC Group and independent third parties), the purchase department shall obtain quotations from at least three suppliers which are in the approved suppliers list. In order to be qualified as an approved supplier, supplier will be evaluated by the purchase department on various aspects of the suppliers, including but not limited to production capacity, financial strengths, qualifications and quality assurance. Currently, there are more than 400 suppliers in the approved suppliers list. To the best of the Directors' knowledge, information and belief, save for the CNPGC Group, all the suppliers in the approved suppliers list are independent of the Company and its connected persons. Quotations received shall then be assessed by the purchase department based on a number of factors, such as price, quality, payment terms, delivery terms and business relationship and the supplier with the best overall offer will be selected. After the purchase department approves the Purchases, the general manager of the relevant operating entity will review the terms of the Purchases to ensure that the Purchases are not made in less favourable terms to the Group than those offered by other suppliers.

The Board considers that the number of quotations to be obtained (i.e. no less than three) is sufficient for evaluation and the above policy will ensure that the terms offered by the selected supplier are no less favourable than those made available to the Group from other suppliers for similar Materials or equipment. As mentioned in the section headed "The

LETTER FROM THE BOARD

New Master Purchase Agreement” above, the Group purchases artificial musk which is exclusively supplied by the CNPGC Group. The CNPGC Group has confirmed that the artificial musk is sold at standard price which is applicable to all customers. As such, the Board is of the view that the terms offered by the CNPGC Group to the Group are no less favourable than those offered to its other customers. The Board is also of the view that (i) the Purchases will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders; and (ii) the above internal control procedures are adequate to safeguard the interest of the Company and the Independent Shareholders in the transactions contemplated under the New Master Purchase Agreement.

Internal controls for the Sales

For the sale of finished drugs to hospitals by way of tender, the Group will determine the tender price with reference to the price cap set by the provincial level tender offices. According to the pricing policy of the Group, the Group may offer discounts to the price cap taking into account the sales amount, payment terms, distance of delivery, business relationship with the customers and production costs. After the sales department approves the Sales, the general manager of the relevant operating entity will review the terms of the Sales to ensure that the discounts are offered in accordance with the Group’s pricing policy.

For the sale of finished drugs to pharmacies and distributors, and the sale of other Products to hospitals, pharmacies and manufacturers, there is an internal price list for the Products which are applicable to all customers (including the CNPGC Group and independent customers). The internal price list is reviewed by the sales and marketing department annually or more frequently if market condition changes materially. Based on the internal price list, the sales department may mark up or offer discount to the price taking into account the sales amount, payment terms, distance of delivery, business relationship with the customer and the production costs according to the pricing policy of the Group. After the sales department approves the Sales, the general manager of the relevant operating entity will review the terms of the Sales (including the price) to ensure that the mark up or discounts offered are in accordance with the Group’s pricing policy.

The abovementioned factors as set out in the pricing policy of the Group are commonly considered in the market in determining the mark-up or discount. Given that the Group’s pricing policy is applicable to all customers (including the CNPGC Group and other independent customers), and the sales department would apply the same principles as stipulated in the pricing policy when considering the mark-up or discount for both the CNPGC Group and the independent customers, the Directors consider that the above internal control procedures can ensure that the terms offered by the Group to the CNPGC Group are no more favourable than terms offered to other independent customers. The Board is also of the view that (i) the pricing policy is fair and reasonable and in the interest of the Company and its shareholders as a whole; (ii) the terms offered to the CNPGC Group will be no more favourable than terms offered to other independent customers; (iii) the Sales will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders as a whole; and (iv) the above internal control procedures are adequate to safeguard the interest of the Company and the Independent Shareholders in the transactions contemplated under the New Master Supply Agreement.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

Sinopharm Hongkong is the controlling Shareholder holding 1,634,705,642 Shares, representing approximately 32.46% of the total number of issued Shares as at the Latest Practicable Date. CNPGC is the parent company of Sinopharm Hongkong and therefore CNPGC is a connected person of the Company and the Purchases and the Sales constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps under the New Master Purchase Agreement and the New Master Supply Agreement, when aggregated, exceed 5%, the entering into of the Agreements is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The following Directors hold the following positions in the CNPGC Group or its associates:

- (i) Mr. Wu Xian is an executive director and general manager of China National Traditional Chinese Medicine Co., Ltd. (formerly known as China National Corp. of Traditional & Herbal Medicine) which is a wholly-owned subsidiary of CNPGC;
- (ii) Mr. YANG Shanhua is the chief accountant of CNPGC and the chairman of Sinopharm Group Finance Co., Ltd;
- (iii) Ms. LI Ru is the director of the legal and risk management department of CNPGC;
- (iv) Mr. YANG Binghua is the director of the party-masses relationship department of CNPGC;
- (v) Mr. WANG Kan is the deputy director of the investment management department of CNPGC; and
- (vi) Mr. YU Tze Shan Hailson is currently an independent non-executive director of Sinopharm Group Co. Ltd. which is a subsidiary of CNPGC.

The above Directors are regarded as having a material interest in the Agreements by virtue of their positions held in the CNPGC Group. Each of them had abstained from voting at the Board meeting on the relevant resolutions for approving the Agreements (including the Annual Caps).

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the Agreements (including the Annual Caps) by way of poll. CNPGC and its associates, which were interested in 1,634,705,642 Shares as at the Latest Practicable Date (representing approximately 32.46% of the total number of issued Shares), will abstain from voting on the relevant resolutions at the EGM.

LETTER FROM THE BOARD

The Independent Board Committee has been established to advise the Independent Shareholders on the Agreements (including the Annual Caps). The Independent Board Committee comprises Mr. Xie Rong, Mr. Qin Ling and Mr. Li Weidong, all being independent non-executive Directors. The other independent non-executive Director, namely Mr. Yu Tze Shan Hailson, is deemed to have a material interest in the Agreements as he is also an independent non-executive director of Sinopharm Group Co. Ltd. (a subsidiary of CNPGC) and accordingly is not included as a member of the Independent Board Committee. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Agreements (including the Annual Caps).

EGM

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the Agreements (including the Annual Caps) by way of poll. A notice convening the EGM to be held at Conference Room, 8th Floor, East Plaza, 15 West 4th Ring Road North, Hadian District, Beijing, China on Friday, 17 January 2020 at 3:30 p.m. is set out on pages EGM-1 and EGM-2 of this circular.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

In order to determine the Shareholders who are entitled to attend the EGM, the Company's register of members will be closed from Tuesday, 14 January 2020 to Friday, 17 January 2020 (both days inclusive). The Shareholders whose names appear on the register of members of the Company on Friday, 17 January 2020 are entitled to attend and vote at the EGM. Shareholders who wish to attend the EGM but have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at the registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 13 January 2020.

CNPGC and its associates, which were interested in 1,634,705,642 Shares as at the Latest Practicable Date (representing approximately 32.46% of the total number of issued Shares), will abstain from voting on the relevant resolutions at the EGM.

RECOMMENDATION

Having taken into account the principal factors and reasons considered by and the advice of Gram Capital as stated in its letter, the Independent Board Committee is of the opinion that (i) the Purchases and Sales are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Agreements (including the Annual Caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders

LETTER FROM THE BOARD

are concerned and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the resolutions to approve the Agreements (including the Annual Caps) at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 15 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter of advice from Gram Capital set out on pages 16 to 32 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders on the terms of the Agreements (including the Annual Caps).

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

By order of the Board
China Traditional Chinese Medicine Holdings Co. Limited
Wu Xian
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



国药集团
SINOPHARM

CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED
中國中藥控股有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

28 December 2019

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 28 December 2019 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter will have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to consider and to give recommendation to the Independent Shareholders on the Agreements and the Annual Caps. Gram Capital has been appointed as the independent financial adviser. We wish to draw your attention to the letter from the Board set out on pages 4 to 14 of the Circular and the letter from Gram Capital set out on pages 16 to 32 of the Circular.

Having taken into account the principal factors and reasons considered by and the advice of Gram Capital as stated in its letter, the Independent Board Committee is of the opinion that (i) the terms of the Purchases and Sales contemplated under the Agreement (the “**Transactions**”) are on normal commercial terms and are fair and reasonable; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions.

Yours faithfully,

Independent Board Committee

Mr. XIE Rong Mr. QIN Ling Mr. LI Weidong
Independent non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Purchases and the Sales contemplated under the Agreements for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

28 December 2019

*To: The independent board committee and the independent shareholders
of China Traditional Chinese Medicine Holdings Co. Limited*

Dear Sir/ Madam,

RENEWAL OF EXISTING ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Purchases and the Sales contemplated under the Agreements (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 28 December 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The term of each of the Existing Master Purchase Agreement and the Existing Master Supply Agreement will expire on 31 December 2019. On 20 November 2019, the Company entered into the New Master Purchase Agreement and the New Master Supply Agreement with CNPGC to govern the terms of the Purchases and the Sales for the three financial years ending 31 December 2022.

With reference to the Board Letter, the Transactions constitute continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and the Independent Shareholders’ approval requirements under the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Xie Rong, Mr. Qin Ling and Mr. Li Weidong (except Mr. Yu Tze Shan Hailson who has material interest in the Agreements) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of

LETTER FROM GRAM CAPITAL

the resolution(s) to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNPGC or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in

LETTER FROM GRAM CAPITAL

effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

Background of and reasons for the Transactions

Information on the Group

With reference to the Board Letter, the principal business activities of the Group are the manufacture and sale of TCM and pharmaceutical products in the PRC with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces.

Set out below are the financial information of the Group for the two years ended 31 December 2018, the six months ended 30 June 2018 and the six months ended 30 June 2019 as extracted from the Company's annual report for the year ended 31 December 2018 (the "2018 Annual Report") and the Company's interim report for the six months ended 30 June 2019 (the "2019 Interim Report"):

	For the year ended 31 December 2018 <i>(audited)</i> RMB'000	For the year ended 31 December 2017 <i>(audited)</i> RMB'000	Year-on-year change %
Revenue	11,258,941	8,337,795	35.03
– Finished drugs	2,771,021	2,381,202	16.37
– Concentrated TCM granules	7,150,562	5,499,679	30.02
– TCM decoction pieces	1,274,829	398,742	219.71
– TCM healthcare complex	62,529	58,172	7.49
Gross profit	6,193,573	4,651,582	33.15
Profit for the year	1,567,028	1,311,433	19.49

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The Group recorded revenue of approximately RMB11.26 billion for the year ended 31 December 2018 (“**FY2018**”), representing an increase of approximately 35.03% as compared to that for the year ended 31 December 2017 (“**FY2017**”). With reference to the 2018 Annual Report, such increase in revenue was mainly attributable to the continuous rapid growth of the concentrated TCM granules business and fast expansion of the TCM decoction pieces business. The Group’s gross profit and profit for FY2018 also increased as compared to those for FY2017.

	For the six months ended 30 June 2019 (unaudited) RMB’000	For the six months ended 30 June 2018 (unaudited) RMB’000	Year-on-year change %
Revenue	6,937,016	5,461,424	27.02
– Finished drugs	1,698,480	1,306,031	30.05
– Concentrated TCM granules	4,570,764	3,487,670	31.05
– TCM decoction pieces	604,911	639,533	(5.41)
– TCM healthcare complex	35,701	25,266	41.30
– Local TCM integrated operation	27,160	2,924	828.86
Gross profit	4,187,172	2,930,733	42.87
Profit for the period	954,437	834,453	14.38

The Group recorded revenue of approximately RMB6.94 billion for the six months ended 30 June 2019 (“**HY2019**”), representing an increase of approximately 27.02% as compared to that for six months ended 30 June 2018 (“**HY2018**”). With reference to the 2019 Interim Report, such increase in revenue was mainly attributable to the continuous rapid and stable growth of the concentrated TCM granules business and the development of the finished drugs in the OTC channel. The Group’s gross profit and profit for HY2019 also increased as compared to those for HY2018.

Information on CNPGC

With reference to the Board Letter, CNPGC is a large state-owned pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Its core businesses are pharmaceutical distribution, pharmaceutical scientific research and manufacture of medical and biotech products.

Reasons for and benefits of the Transactions

With reference to the Board Letter, the Agreements were entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the business opportunities that may be brought about by the CNPGC Group to the Group. Members of the CNPGC Group have

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been the suppliers of the Materials and customers of the Products since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity and a well-established distribution network.

As advised by the Directors, the Materials are major TCM and chemical materials used to manufacture pharmaceutical products of the Group, while the equipment to be supplied by the CNPGC Group are the concentrated TCM granules dispensing machines for the Group's business use. The entering into of the New Master Purchase Agreement enables the Group to source stable and quality supply of the Materials and the equipment for its business use.

As advised by the Directors, the Products are major products manufactured by the Group. The entering into of the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. As CNPGC is one of the largest pharmaceutical companies in the PRC and has a long-term relationship with the Group, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC via the CNPGC Group as the Group's distributor.

Having considered (i) the financial performance of the Group as highlighted above (i.e. the increase in revenue during FY2018 (as compared to FY2017) and HY2019 (as compared to HY2018)); (ii) background of CNPGC; (iii) that the Group has long business relationship with the CNPGC Group; (iv) that the Materials are purchased for the Group's manufacture of pharmaceutical products; and (v) that the Products are major products manufactured by the Group, we concur with the Directors that the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Principal terms of the Transactions

(i) The Purchases

Principal terms of the New Master Purchase Agreement in relation to the Purchases

Date

20 November 2019

Parties

the Company and CNPGC

LETTER FROM GRAM CAPITAL

Subject matter

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase the Materials and equipment to be supplied by the CNPGC Group during the period from 1 January 2020 to 31 December 2022. The terms of the Purchases shall adhere to the following principles:

- (i) the terms of the Purchases (including prices, discounts, credit period and payment terms) shall be fair and reasonable and on normal commercial terms, and no less favourable to the Group than those available to the Group from independent third parties; and
- (ii) the prices of the Materials and equipment shall be determined based on the prevailing market prices.

The Materials are major TCM and chemical materials used to manufacture pharmaceutical products of the Group, including but not limited to vitro cultivation calculus bovis(體外培育牛黃), pangolin scales(炮山甲), chlorpheniramine maleate(馬來酸氯苯那敏), artificial musk(人工麝香), atractylodes(白朮) and resina draconis(血竭). The equipment to be supplied by the CNPGC Group are the concentrated TCM granules dispensing machines for the Group's business use.

As advised by the Directors, the Products under the Purchases are mainly Materials. Materials purchased by the Group were used to manufacture pharmaceutical products which were categorised into three segments (i.e. finished drugs, concentrated TCM granules and TCM decoction pieces). For our due diligence purpose, we obtained documents (including invoices and contracts) regarding the purchase of Materials (which are not exclusively supplied by the CNPGC Group) by the Group from the CNPGC Group and independent third parties in each of the aforesaid segment during 2017 to 2019 (i.e. at least one invoice and one contract for purchase from the CNPGC Group; and at least one invoice and one contract for purchase from independent third parties were obtained for each segment in each year (except for concentrated TCM granules segment in 2017 given that, as advised by the Directors, the Group did not purchase the relevant Materials from CNPGC Group in 2017)). We noted from such documents that for comparable Materials and within a given year, the average unit prices of Materials purchased from the CNPGC Group were not higher than those purchased from independent third parties. In addition, according to the 2018 Annual Report, as at 31 December 2018, most of the Group's trade and bills payables were due within 0-90 days based on invoice date. According to the aforesaid documents, the credit and payment terms of the purchases (by the Group from the CNPGC Group and independent third parties) were also within 0-90 days based on invoice date.

With reference to the Board Letter, the CNPGC Group is the exclusive supplier of artificial musk in the PRC and the standard price of artificial musk set by the CNPGC Group is applicable to all customers. For our due diligence purpose, we obtained invoices regarding the purchase of artificial musk (i) by the Group from the CNPGC Group and (ii) by independent third parties from the CNPGC Group during 2017 to 2019 (i.e. one invoice and one contract for purchase by the Group; and one invoice and

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one contract for purchase by independent third parties were obtained in each year). We noted from such documents that (i) the unit prices of artificial musk sold to the Group were the same as those sold to independent third parties; and (ii) the credit and payment terms of the purchases were the same and also within 0-90 days based on invoice date.

With reference to the Board Letter, the Group has adopted certain internal control procedures in relation to the Purchases, details of which are set out in the sub-sections headed “Internal controls for the Purchases” of the Board Letter. Having considered, in particular, that

- (i) the purchase department shall obtain quotations from at least three suppliers which are in the approved suppliers list (save for the CNPGC Group, all the suppliers in the approved suppliers list are independent of the Company and its connected persons);
- (ii) quotations received shall then be assessed by the purchase department based on a number of factors, such as price, quality, payment terms, delivery terms and business relationship and the supplier with the best overall offer will be selected; and
- (iii) after the purchase department approves the Purchases, the general manager of the relevant operating entity will review the terms of the Purchases to ensure that the Purchases are not made in less favourable terms to the Group than those offered by other suppliers,

we consider the effective implementation of such internal control measures would help to ensure fair pricing of the Purchases. With reference to the Board Letter, apart from artificial musk, the Company does not expect to purchase other materials which are exclusively supplied by the CNPGC Group in the three years ending 31 December 2022. The CNPGC Group has confirmed that the artificial musk is sold at standard price which is applicable to all customers.

With reference to the 2018 Annual Report, the independent non-executive Directors have reviewed relevant continuing connected transactions of the Company (including the transactions contemplated under the Existing Master Purchase Agreement and the Existing Master Supply Agreement) during FY2018 and confirmed that such continuing connected transactions have been entered into (i) in the usual and ordinary course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole (the “INEDs’ Confirmation”).

In addition, the Company’s auditor was engaged to report on the Group’s continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s

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Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, the Company’s auditor, has provided a letter to the Board regarding the relevant continuing connected transactions of the Company (including the transactions contemplated under the Existing Master Purchase Agreement and the Existing Master Supply Agreement) during FY2018 confirming that: (i) nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Board; (ii) for transactions involving the provisions of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the annual cap as set by the Company (the “**Auditors’ Confirmation**”).

In light of the above, we are of the view that the terms of the Purchases are on normal commercial terms and are fair and reasonable.

The Annual Caps for the Purchases

Set out below are (i) the existing annual caps of the Purchases for each of the three years ending 31 December 2019; (ii) the historical transaction amount for each of the two years ended 31 December 2018 and the six months ended 30 June 2019; and (iii) the Annual Caps for the Purchases (the “**Purchases Cap(s)**”) for each of the three years ending 31 December 2022 as extracted from the Board Letter:

	For the year ended 31 December 2017 RMB	For the year ended 31 December 2018 RMB	For the year ending 31 December 2019 RMB
Existing annual cap	45,000,000	45,000,000	45,000,000
Historical transaction amount	22,600,000	26,000,000	14,200,000 <i>(Note)</i>

	For the year ending 31 December 2020 RMB	For the year ending 31 December 2021 RMB	For the year ending 31 December 2022 RMB
The Purchases Caps	55,000,000	63,000,000	70,000,000

Note: for the six months ended 30 June 2019

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With reference to the Board Letter, for the purpose of determining the Purchases Caps for the Purchases for each of the three years ending 31 December 2020, 2021 and 2022, the Company has considered factors as mentioned in the sub-section headed “Annual Caps” under the section headed “THE NEW MASTER PURCHASE AGREEMENT” of the Board Letter.

To assess the fairness and reasonableness of the Purchases Caps, we obtained (i) the Purchases estimation which are classified according to the product segments (i.e. finished drugs, concentrated TCM granules and TCM decoction pieces) during each of the three years ending 31 December 2022; and (ii) a breakdown of historical transaction amount for the Purchases according to product segments for FY2018 and HY2019. We noted that the Purchases Cap in a given year is the sum of the Purchases estimation for the three segments.

The Purchases estimation for finished drugs segment in 2020

For the finished drugs segment, we noted that the Purchases estimation for the year ending 31 December 2020 represents an increase of approximately 37.45% as compared the historical transaction amount for FY2018. As advised by the Directors, such increase is due to (i) the expected purchase of a type of Material (“**Material A**”) from the CNPGC Group amounting to approximately RMB5 million for each of the three years ending 31 December 2022 which were used to be purchased from independent third parties (the “**Material A Additional Purchase**”); and (ii) the potential growth of the Purchases amount of 17%.

As advised by the Directors, the purchase price of Material A had been increasing during recent years. It is the Group’s plan to prioritize the purchase of Material A from the CNPGC Group as long as the purchase price is not higher than the prevailing market price available from independent third party suppliers. For our due diligence purpose, we obtained information regarding the Group’s purchase of Material A from independent third parties during 2017 to 2019. We noted that (i) the purchase price of Material A increased by a maximum of more than 20 times from 2017 to 2019; and (ii) the purchase of Material A historical transaction amount from independent third party suppliers amounted to approximately RMB4.1 million for FY2018. Having considered that above, we consider the Material A Additional Purchase of approximately RMB5 million to be justifiable.

As mentioned in the section above, the Group’s revenue from the finished drugs segment recorded an increase of approximately 16.37% for FY2018 (as compared to that for FY2017) and an increase of approximately 30.05% for HY2019 (as compared to that for HY2018). The estimated growth of the Purchases amount of 17% under the Purchase estimation is in line with the said growth rates of the finished drugs segment. According, we consider the Purchases estimation for finished drugs for the year ending 31 December 2020 to be justifiable.

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The Purchases estimation for Concentrated TCM granules segment in 2020

For the concentrated TCM granules segment, we noted that the Purchases estimation for the year ending 31 December 2020 represents an increase of approximately RMB14 million as compared the historical transaction amount for FY2018. As advised by the Directors, such increase is due to the expected purchase of a type of Material (“**Material B**”) from the CNPGC Group amounting to approximately RMB9 million for each of the three years ending 31 December 2022 which were used to be purchased from independent third parties (“**Material B Additional Purchase**”).

As advised by the Directors, Material B is a scarce material and is often out of stock from suppliers. The Group therefore reserved certain purchase amount from the CNPGC Group during the three years ending 31 December 2022 (i.e. Material B Additional Purchase). For our due diligence purpose, we obtained information regarding the Group’s purchase of Material B from independent third parties during 2017 to 2019. We noted that the purchase of Material B historical transaction amount from independent third parties increased by approximately RMB30 million from FY2017 to FY2018. Despite that the purchase of Material B from independent third parties seemed to slow down during 2019 (i.e. the historical transaction amount for HY2019 $\times 2 <$ the historical transaction amount for FY2018), the historical transaction amount for HY2019 already slightly exceeded the historical transaction amount for FY2017. Accordingly, we consider Material B Additional Purchase to be justifiable.

As also mentioned in the section above, the Group recorded revenue from the concentrated TCM granules segment of approximately RMB7.15 billion for FY2018 and RMB4.57 billion for HY2019, representing an increase of approximately 30.02% for FY2018 (as compared to that for FY2017) and an increase of approximately 31.15% for HY2019 (as compared to that for HY2018).

Having considered the above, we consider the Purchases estimation for concentrated TCM granules for the year ending 31 December 2020 to be justifiable.

The Purchases estimation for TCM decoction pieces segment in 2020

With reference to the 2019 Interim Report, the Group fully leveraged on the layout of the “local TCM integrated operation” to produce the TCM decoction pieces at the place of origin by local initial processing. The “local TCM integrated operation”, has got through the links of planting, procurement, concentrated TCM granules manufacture, TCM decoction pieces processing, decocting and distributing TCM service. The establishment of the “local TCM integrated operation” companies can provide the Group with authentic local medicinal herbs materials, as well as reduce the cost of mass production of local products while stationed locally, and enjoy the preferential policies of the local market, to further open up the local market, increase the market share, and form a comprehensive competitive advantage. As further mentioned in the 2019 Interim Report, after a preliminary exploration in 2018, 2019 is a crucial year of the establishment of the “local TCM integrated operation” pattern.

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As advised by the Directors, following the establishment of the “local TCM integrated operation” pattern (which, among others, sources medicinal raw material and produces the TCM decoction pieces at the place of origin) in 2019, the Group would source raw medicinal material from some other independent third party local suppliers instead of from the CNPGC Group in certain locations. The Directors expected a moderately stable Purchases demand for TCM decoction pieces segment, as compared to a growth for the finished drugs segment and concentrated TCM granules segment, for the year ending 31 December 2020; and estimated that the Purchases amount for the year ending 31 December 2020 is approximately 1.8 times the historical Purchases amount for HY2019 (i.e. the Purchases amount for the year ending 31 December 2020 represents a decrease of approximately 10.22% as compared to the annualised Purchases amount for the year ending 31 December 2019, which was calculated as twice the historical Purchases amount for HY2019).

As mentioned in the section above, the Group’s revenue from the TCM decoction pieces segment recorded an increase of approximately 219.71% for FY2018 (as compared to that for FY2017). With reference to the 2018 Annual Report, the rapid sales revenue growth of the decoction pieces segment was mainly due to (i) the consolidation of financial statements of four companies acquired during the period; (ii) a favourable national policy environment to promote the development of TCM; and (iii) rapid development of the intelligent distribution center business. For HY2019, the segment revenue recorded a slight decrease of approximately 5.41% (as compared to that for HY2018). With reference to the 2019 Interim Report, such decrease was due to (i) the Company’s optimization of its business structure, abandoning some of its traditional low-margin businesses, and beginning to increase the sales of its featured products and high-margin product; and (ii) the new plants mainly provided internal supply initially to gradually get into smooth operation.

Having considered the above, we consider the Purchases estimation for TCM decoction pieces for the year ending 31 December 2020, which is approximately 1.8 times the historical transaction amount for HY2019, to be justifiable.

The Purchases estimation for 2021 and 2022

We noted that the Purchases Cap for the year ending 31 December 2021 and 2022 represents an increase of approximately 15% and 11% respectively as compared to the Purchases Cap for the previous year. Having considered the revenue growth rates of the Group for FY2018 and HY2019 being approximately 35.03% (as compared to that for FY2017) and 27.02% (as compared to that for HY2018), we do not doubt the reasonableness of the Purchases estimation for 2021 and 2022.

In light of the above, we consider that the Purchases Caps for the three years ending 31 December 2022 are fair and reasonable.

Shareholders should note that as the Purchases Caps for the three years ending 31 December 2022 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and

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they do not represent forecasts of costs to be incurred from the Purchases. Consequently, we express no opinion as to how closely the actual purchase costs to be incurred from the Purchases will correspond with the Purchases Caps.

(ii) The Sales

Principal terms of the New Master Supply Agreement in relation to the Sales

Date

20 November 2019

Parties

the Company and CNPGC

Subject matter

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the Products to the CNPGC Group during the period from 1 January 2020 to 31 December 2022. The terms of the Sales shall adhere to the following principles:

- (i) the terms of the Sales (including prices, discounts, credit period and payment terms) shall be fair and reasonable and on normal commercial terms, and no less favourable to the Group than those offered by the Group to independent third parties; and
- (ii) the prices of the Products shall be determined based on the prevailing market prices.

The Products are major products manufactured by the Group, including but not limited to concentrated TCM granules products, TCM decoction pieces, Xianling Gubao Capsules and Tablets (仙靈骨葆膠囊及片劑), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturizing and AntiItching Capsules (潤燥止癢膠囊), Weimaining Capsules (威麥寧膠囊), Bi Yan Kang Tablet (鼻炎康片), Zaoren Anshen Capsules (棗仁安神膠囊), Niu Huang Shangqing Wan (牛黃上清丸), Group A Streptococcus for injection (Sha Pei Lin) (注射用A群鏈球菌(沙培林)), Fengshi Gutong Capsules (風濕骨痛膠囊), Trionycis Bolus (鱉甲煎丸) and Nifedipine Sustained-release tablets (Sheng Tong Ping) (硝苯地平緩釋片(聖通平)).

As advised by the Directors, the Products sold to the CNPGC Group were categorised into three segments (i.e. finished drugs, concentrated TCM granules and TCM decoction pieces). For our due diligence purpose, we obtained sales documents (including invoices, order agreements and contracts) regarding the sale of Products by the Group to the CNPGC Group and independent third parties in each of the aforesaid segment during 2017 to 2019 (i.e. at least one invoice/order agreement and one contract for a particular sale to the CNPGC Group; and one invoice/order agreement and one contract for a particular sale to independent third parties were obtained for

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each segment in each year). We noted from such documents that the unit prices of Products sold to the CNPGC Group were not lower than those sold to independent third parties. In addition, according to the 2018 Annual Report, the Group allows a credit period within 365 days to certain trade customers. As at 31 December 2018, most of the Group's trade receivables were due within 0-90 days based on invoice date. According to the aforesaid documents, the credit and payment terms of the sales of Materials (by the Group to the CNPGC Group and independent third parties) were also within 0-90 days based on invoice date.

With reference to the Board Letter, the Group has adopted certain internal control procedures in relation to the Sales, details of which are set out in the sub-sections headed "Internal controls for the Sales" of the Board Letter. Having considered, in particular, that

- (i) For the sale of finished drugs to hospitals by way of tender, the Group will determine the tender price with reference to the price cap set by the provincial level tender offices. According to the pricing policy of the Group, the Group may offer discounts to the price cap taking into account the sales amount, payment terms, distance of delivery, business relationship with the customers and production costs. After the sales department approves the Sales, the general manager of the relevant operating entity will review the terms of the Sales to ensure that the discounts are offered in accordance with the Group's pricing policy; and
- (ii) For the sale of finished drugs to pharmacies and distributors, and the sale of other Products to hospitals, pharmacies and manufacturers, there is an internal price list for the Products which are applicable to all customers (including the CNPGC Group and independent customers). The internal price list is reviewed by the sales and marketing department annually or more frequently if market condition changes materially. Based on the internal price list, the sales department may mark up or offer discount to the price taking into account the sales amount, payment terms, distance of delivery, business relationship with the customer and the production costs according to the pricing policy of the Group. After the sales department approves the Sales, the general manager of the relevant operating entity will review the terms of the Sales (including the price) to ensure that the mark up or discounts offered are in accordance with the Group's pricing policy.

we consider the effective implementation of such internal control measures would help to ensure fair pricing of the Sales.

In light of the above, the INEDs' Confirmation and the Auditors' Confirmation, we are of the view that the terms of the Sales are on normal commercial terms and are fair and reasonable.

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The Annual Caps for the Sales

Set out below are (i) the existing annual caps of the Sales for each of the three years ending 31 December 2019; (ii) the historical transaction amount for each of the two years ended 31 December 2018 and the six months ended 30 June 2019; and (iii) the Annual Caps for the Sales (the “Sales Cap(s)”) for each of the three years ending 31 December 2022 as extracted from the Board Letter:

	For the year ended 31 December 2017 RMB	For the year ended 31 December 2018 RMB	For the year ending 31 December 2019 RMB
Existing annual cap	800,000,000	900,000,000	1,000,000,000
Historical transaction amount	382,400,000	760,100,000	422,600,000
			<i>(Note)</i>
	For the year ending 31 December 2020 RMB	For the year ending 31 December 2021 RMB	For the year ending 31 December 2022 RMB
The Sales Caps	1,200,000,000	1,450,000,000	1,700,000,000

Note: for the six months ended 30 June 2019

With reference to the Board Letter, for the purpose of determining the Sales Caps for each of the three years ending 31 December 2020, 2021 and 2022, the Company has considered factors as mentioned in the sub-section headed “Annual Caps” under the section headed “THE NEW MASTER SUPPLY AGREEMENT” of the Board Letter.

To assess the fairness and reasonableness of the Sales Caps, we obtained the Sales estimation during each of the three years ending 31 December 2022. We noted that the Sales estimation are classified according to the product segments (i.e. finished drugs, concentrated TCM granules, TCM decoction pieces and premium decoction pieces). The finished drugs, concentrated TCM granules, TCM decoction pieces are the exiting business segments of the Group, while the premium decoction pieces segment is newly established by the Company. As advised by the Directors, the Sales estimation was determined with reference to the historical transaction amount of the Sales, and the business and sales plan of the Group.

The Sales estimation for 2020

Based on the Sales estimation, we noted that “the sum of estimated Sales amount for the existing segments (i.e. finished drugs, concentrated TCM granules and TCM decoction pieces) for the year ending 31 December 2020” represents an increase of approximately 29.43% as compared to annualised transaction amount of Sales for the

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year ending 31 December 2019 (which is calculated as twice the historical Sales amount for HY2019) (“**2020 Sales Increase for Existing Segments**”); while the Sales Cap for the year ending 31 December 2020 (which is the sum of estimated Sales amount for the existing segments and the newly established premium decoction pieces segment) represents an increase of approximately 41.98% as compared to the annualised transaction amount of Sales for the year ending 31 December 2019.

As mentioned in the section above, the Group’s revenue recorded increase of approximately 35.03% for FY2018 (as compared to that for FY2017) and 27.02% for HY2019 (as compared to that for HY2018). The 2020 Sales Increase for Existing Segments is in line with the said growth rate of the Group’s revenue.

With reference to the 2019 Interim Report, the Group established the premium decoction piece division during HY2019. In the second half of 2019, the Group would introduce the premium decoction pieces series with best grade specifications and traceable quality assurance so as to open and gradually expand the consumer market for high-end TCM decoction pieces consumer market. As advised by the Directors, the premium decoction pieces segment is an extension of the TCM decoction pieces segment. Similar to TCM decoction pieces, the premium decoction pieces would mainly and ultimately be sold to the hospitals.

For our due diligence purpose, we obtained the Group’s sales plan of the premium TCM decoction pieces business during the three years ending 31 December 2022. We noted from the sales plan information regarding (i) the number of hospitals to which the premium decoction pieces would be sold, and (ii) the estimated sales amount of premium decoction pieces per hospital. We also obtained (i) a list of potential hospitals identified for the sale of the Group’s premium decoction pieces (the “**Potential Hospital(s)**”); (ii) a list of existing hospital clients (the “**Existing Hospital(s)**”) for the sale of the Group’s TCM decoction pieces during 2017 to 2019. We noted from such lists that (i) the number of hospitals to which the premium decoction pieces would be sold is within the number of Potential Hospitals; and (ii) the Existing Hospitals include certain Potential Hospitals; and (iii) the number of Existing Hospitals represents several times of the number of Potential Hospitals. Accordingly, we do not doubt the reasonableness of the number of hospitals to which the premium decoction pieces would be sold according to the sales plan.

In addition, we obtained sales information in relation to the Group’s two major subsidiaries engaging in the sale of TCM decoction pieces during 2017 to 2019. We noted that the estimated sales amount of premium decoction pieces per Potential Hospital (according to the sales plan) is within the range of the historical sales amounts of each Existing Hospital of such two subsidiaries during 2017 to 2019. Taking into account the above and that the Group recorded revenue of approximately RMB1.27 billion for the TCM decoction pieces segment for FY2018, representing approximately 5 times “the sum of estimated Sales amount for TCM decoction pieces segment and the premium decoction pieces segment for the year ending 31 December 2020”, we do not doubt the reasonableness of the said sales plan. The estimated Sales amount for the newly established premium decoction pieces segment for the year ending 31 December 2020 is in line with the said sales plan.

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Having considered the above, we consider the Sales estimation for the year ending 31 December 2020 to be justifiable.

The Sales estimation for 2021 and 2022

We noted that the Sales Cap for the year ending 31 December 2021 and 2022 represents an increase of approximately 21% and 17% respectively as compared to the Sales Cap for the previous year. Having considered that (i) the revenue growth rates of the Group for FY2018 and HY2019 amount to approximately 35.03% (as compared to that for FY2017) and 27.02% (as compared to that for HY2018); and (ii) the estimated Sales amount for the newly established premium decoction pieces segment for each of the two years ending 31 December 2022 are in line with the aforesaid sales plan of the newly established premium decoction pieces business, we do not doubt the reasonableness of the Sales estimation for 2021 and 2022.

In light of the above, we consider that the Sales Caps for the three years ending 31 December 2022 are fair and reasonable.

Shareholders should note that as the Sales Caps for the three years ending 31 December 2022 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of revenue to be generated from the Sales. Consequently, we express no opinion as to how closely the actual revenue to be generated from the Sales will correspond with the Sales Caps.

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Transactions must be restricted by the Annual Caps for the period concerned under the Agreements; (ii) the terms of the Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Transactions must be included in the Company's subsequent published annual reports. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the Transactions; and (iv) have exceeded the Annual Caps. In the event that the total amounts of the Transactions exceed the Annual Caps, or that there is any material amendment to the terms of the Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transactions and thus the interest of the Independent Shareholders would be safeguarded.

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RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company and/or their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Capacity/Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company (Note 2)
Mr. Wang Xiaochun (“Mr. Wang”)	Interest in controlled corporation	270,001,042 (long position) (Note 1)	5.36%

Notes:

- The 270,001,042 Shares are held by Hanmax Investment Limited (“Hanmax”) which is wholly owned by Mr. Wang.
- Based on 5,035,801,852 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested or were deemed to have interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which

they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(ii) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of the Company

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company <i>(Note 4)</i>
Sinopharm Hongkong	Beneficial owner	1,634,705,642 (long position) <i>(Note 1)</i>	32.46%
CNPGC	Interest of controlled corporations	1,634,705,642 (long position) <i>(Note 1)</i>	32.46%
Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance")	Beneficial owner	604,296,222 (long position) <i>(Note 2)</i>	12.00%
Ping An Insurance (Group) Company of China, Ltd. ("Ping An")	Interest of controlled corporations	604,296,222 (long position) <i>(Note 2)</i>	12.00%
Hanmax	Beneficial owner	270,001,042 (long position) <i>(Note 3)</i>	5.36%

Notes:

1. 1,634,705,642 Shares are held by Sinopharm Hongkong which is indirectly wholly owned by CNPGC.
2. The 604,296,222 shares are held by Ping An Life Insurance which is a subsidiary of Ping An. Ping An is deemed to be interested in Ping An Life Insurance's interest in the Company under the SFO.
3. The 270,001,042 Shares are held by Hanmax which is wholly owned by Mr. Wang.
4. Based on 5,035,801,852 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no other persons had, or were deemed to have, any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was considered to have interests in businesses apart from the Group's businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. EXPERT AND CONSENT

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

Gram Capital Limited	a licensed corporation which is licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
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Gram Capital has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, Gram Capital did not have any interest, either directly or indirectly, in

any assets which have been, since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up).

7. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up).

8. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, save for the Agreements, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the registered office of the Company in Hong Kong up to and including the date of the EGM:

- (a) the Articles of Association;
- (b) the Agreements;
- (c) the letter from the Board, the text of which is set out on pages 4 to 14 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 15 of this circular;
- (e) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 16 to 32 of this circular;
- (f) the written consent as referred to in the paragraph headed "Expert and Consent" in this appendix; and

(g) this circular.

10. MISCELLANEOUS

The English version of this circular and the accompanying form of proxy shall prevail over the Chinese text for the purpose of interpretation.

NOTICE OF THE EGM



国药集团
SINOPHARM

CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED
中國中藥控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 570)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of China Traditional Chinese Medicine Holdings Co. Limited (the “**Company**”) will be held at Conference Room, 8th Floor, East Plaza, 15 West 4th Ring Road North, Hadian District, Beijing, China on Friday, 17 January 2020 at 3:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) The new master purchase agreement (the “**New Master Purchase Agreement**”) dated 20 November 2019 and entered into between the Company and China National Pharmaceutical Group Co., Ltd. (“**CNPGC**”, together with its subsidiaries, the “**CNPGC Group**”) in relation to the purchases of traditional Chinese medicine, chemical materials and equipment by the Group from the CNPGC Group (a copy of which has been produced to the EGM marked “A” and initialed by the Chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the transactions contemplated under the New Master Purchase Agreement as stated in the circular of the Company dated 28 December 2019 (the “**Circular**”) for the three years ending 31 December 2020, 2021 and 2022 be and are hereby approved, confirmed and ratified; and
- (c) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the New Master Purchase Agreement and the transactions contemplated thereunder and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the New

NOTICE OF THE EGM

Master Purchase Agreement as they may in his/her/their discretion consider to be desirable and in the interests of the Company and all the Directors' acts as aforesaid be hereby approved, confirmed and ratified."

2. "THAT:

- (a) The new master supply agreement (the "New Master Supply Agreement") dated 20 November 2019 and entered into between the Company and CNPGC in relation to the sales of various pharmaceutical products manufactured and supplied by the Group to the CNPGC Group (a copy of which has been produced to the EGM marked "B" and initialed by the Chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the transactions contemplated under the New Master Supply Agreement as stated in the Circular for the three years ending 31 December 2020, 2021 and 2022 be and are hereby approved, confirmed and ratified; and
- (c) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the New Master Supply Agreement and the transactions contemplated thereunder and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the New Master Supply Agreement as they may in his/her/their discretion consider to be desirable and in the interests of the Company and all the Directors' acts as aforesaid be hereby approved, confirmed and ratified."

By order of the Board
China Traditional Chinese Medicine Holdings Co. Limited
Wu Xian
Chairman

28 December 2019

Notes:

1. In order to determine the Shareholders who are entitled to attend the EGM, the Company's register of Shareholders will be closed from Tuesday, 14 January 2020 to Friday, 17 January 2020 (both days inclusive). The Shareholders whose names appear on the register of members of the Company on Friday, 17 January 2020 are entitled to attend and vote at the EGM. Shareholders who wish to attend the EGM but have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at the registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 13 January 2020.
2. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at the EGM. A proxy need not be a member of the Company.
3. A form of proxy for the EGM is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, shall be deposited at the Company's registered office at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM.