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国药集团
SINOPHARM

國藥控股股份有限公司 SINOPHARM GROUP CO. LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)

(Stock Code: 01099)

**(1) CONTINUING CONNECTED TRANSACTIONS: ENTERING INTO THE 2020 PROCUREMENT FRAMEWORK AGREEMENT, 2020 SALES FRAMEWORK AGREEMENT, 2020 EPC GENERAL CONTRACTING SERVICE FRAMEWORK AGREEMENT AND 2020 FACTORING SERVICES FRAMEWORK AGREEMENT; AND
(2) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTION: ENTERING INTO THE 2020 FINANCIAL SERVICES FRAMEWORK AGREEMENT**

References are made to (i) the announcement of the Company dated 27 October 2017 in relation to the 2017 Procurement Framework Agreement, the 2017 Sales Framework Agreement and the 2017 EPC General Contracting Service Framework Agreement entered into between the Company and CNPGC and the 2017 Financial Services Framework Agreement entered into between the Company and Sinopharm Group Finance Company; and (ii) the announcement of the Company dated 23 March 2018 in relation to the 2018 Factoring Services Framework Agreement entered into between the Company and the Factoring Company.

The Board hereby announces that as the term of each of the above-mentioned framework agreements as well as the annual caps for each of the continuing connected transactions thereunder will expire on 31 December 2020, on 22 October 2020, (i) the Company and CNPGC entered into the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023; (ii) the Company and CNPGC entered into the 2020 EPC General Contracting Service Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023; (iii) the Company and Sinopharm Group Finance Company entered into the 2020 Financial Services Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023; and (iv) the Company and the Factoring Company entered into the 2020 Factoring Services Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023.

The Company estimates that (i) the annual caps for the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement for the three years ending 31 December 2023 will

amount to RMB7,000 million, RMB8,000 million and RMB9,000 million, respectively; (ii) the annual caps for the continuing connected transactions contemplated under the 2020 Sales Framework Agreement for the three years ending 31 December 2023 will amount to RMB1,800 million, RMB2,000 million and RMB2,150 million, respectively; (iii) the annual caps for the continuing connected transactions contemplated under the 2020 EPC General Contracting Service Framework Agreement for each of the three years ending 31 December 2023 will amount to RMB300 million; (iv) the maximum daily balance of deposits under the 2020 Financial Services Framework Agreement for each of the three years ending 31 December 2023 will amount to RMB5,000 million, and the annual caps for the interests/service fees payable for the provision of Other Financial Services under the 2020 Financial Services Framework Agreement for each of the three years ending 31 December 2023 will amount to RMB500 million; and (v) the annual caps for the continuing connected transactions contemplated under the 2020 Factoring Services Framework Agreement for each of the three years ending 31 December 2023 will amount to RMB150 million, RMB180 million and RMB200 million, respectively.

HONG KONG LISTING RULES IMPLICATIONS

CNPGC is the ultimate controlling shareholder of the Company, therefore, CNPGC and its subsidiaries, Sinopharm Group Finance Company and the Factoring Company are connected persons of the Company under the Hong Kong Listing Rules. The transactions under each of the 2020 Procurement Framework Agreement, the 2020 Sales Framework Agreement, the 2020 EPC General Contracting Service Framework Agreement, the 2020 Financial Services Framework Agreement and the 2020 Factoring Services Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.77 of the Hong Kong Listing Rules) in respect of the continuing connected transactions contemplated under each of the 2020 Sales Framework Agreement, the 2020 EPC General Contracting Service Framework Agreement and the 2020 Factoring Services Framework Agreement and the interests/service fees payable for the provision of Other Financial Services under the 2020 Financial Services Framework Agreement exceed 0.1% but are less than 5%, such agreements and the transactions thereunder are only subject to the reporting, announcement and annual review requirements, but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in respect of (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement; and (ii) the deposit services under the 2020 Financial Services Framework Agreement exceed 5%, such transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios in respect of the deposit services under the 2020 Financial Services Framework Agreement exceed 5% but are less than 25%, the deposit services thereunder are also subject to the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

THE EXTRAORDINARY GENERAL MEETING

An extraordinary general meeting of the Company will be convened to seek the approval of the Independent Shareholders with respect to (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof. CNPGC and its associates will abstain from voting on the relevant resolutions at the extraordinary general meeting.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders on (i) the continuing connected transactions

contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, details of (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof, a letter from the Independent Board Committee and the recommendation from the Independent Financial adviser to the Independent Board Committee and the Independent Shareholders, together with a notice convening the extraordinary general meeting, will be despatched to the Shareholders on or before 3 December 2020 as more time is needed for the preparation of the information to be contained therein.

I. BACKGROUND

References are made to (i) the announcement of the Company dated 27 October 2017 in relation to the 2017 Procurement Framework Agreement, the 2017 Sales Framework Agreement and the 2017 EPC General Contracting Service Framework Agreement entered into between the Company and CNPGC and the 2017 Financial Services Framework Agreement entered into between the Company and Sinopharm Group Finance Company; and (ii) the announcement of the Company dated 23 March 2018 in relation to the 2018 Factoring Services Framework Agreement between the Company and the Factoring Company.

As the term of each of the above-mentioned framework agreements as well as the annual caps for each of the continuing connected transactions thereunder will expire on 31 December 2020, on 22 October 2020, (i) the Company and CNPGC entered into the 2020 Procurement Framework Agreement, the 2020 Sales Framework Agreement and the 2020 EPC General Contracting Service Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023; (ii) the Company and Sinopharm Group Finance Company entered into the 2020 Financial Services Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023; and (iii) the Company and the Factoring Company entered into the 2020 Factoring Services Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023.

II. THE 2020 PROCUREMENT FRAMEWORK AGREEMENT

As the term of the 2017 Procurement Framework Agreement will expire on 31 December 2020, the Company and CNPGC entered into the 2020 Procurement Framework Agreement on 22 October 2020 for a term of three years from 1 January 2021 to 31 December 2023, subject to the approval by the Independent Shareholders at the general meeting of the Company. When entering into the 2020 Procurement Framework Agreement, the Company updated the pricing policy thereof, so as to meet the needs of the Group better. Except for this, the 2020 Procurement Framework Agreement is not materially different from the 2017 Procurement Framework Agreement.

1. The 2020 Procurement Framework Agreement

Details of the 2020 Procurement Framework Agreement are as follows:

Date: 22 October 2020

Parties: (i) the Company

(ii) CNPGC

Term of the Agreement: Subject to the approval by the Independent Shareholders, the 2020 Procurement Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.

Major Terms and Conditions: Pursuant to the 2020 Procurement Framework Agreement, the Group has agreed to purchase products such as pharmaceutical products, personal-care supplies, medical devices and health products from the CNPGC Group; and the CNPGC Group has agreed to sell such products to the Group.

The Group will purchase relevant products from the CNPGC Group on a voluntary and non-compulsory basis and is entitled to purchase the same from any other third parties.

Upon its expiry, the 2020 Procurement Framework Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and the agreement of the parties, be renewed for a further term of three years.

Pricing Policy: The price of pharmaceutical products and medical devices to be purchased by the Group from the CNPGC Group under the 2020 Procurement Framework Agreement will be determined by the parties through arm's length negotiation after mainly taking into account (i) the final price according to which the relevant product is sold to hospitals, pharmacies and other institutions (for example, for products that go through the public bidding process, the final price refers to the awarded price; for products that do not go through the public bidding process, the final price refers to the price that the manufacturer files with the government or the selling price to the hospital from the distributor agreed between the manufacturer and the hospital), (ii) the distribution costs of the relevant members of the Group, and (iii) the profit level of the Group on relevant product. The price of products such as personal-care products and health products to be purchased by the Group from the CNPGC Group under the 2020 Procurement Framework Agreement will be determined by the parties through arm's length negotiation after mainly taking into account the guiding retail price provided by relevant members of the CNPGC Group for the related products, the distribution costs of the relevant members of the Group, and the profit level of the Group on relevant product.

After (i) considering comprehensively a lot of factors relating to the specific product, including but not limited to the price, quality, credit period, delivery method, after-sales service, gross profit and

average price in the industry (for example, in terms of pharmaceutical products, the average price refers to the awarded price won in the public bidding process which is held by the tender offices of relevant levels of the PRC government or hospitals and participated by the relevant member of the CNPGC Group and other independent third parties; in respect of one particular product, the Company and/or its subsidiaries will generally refer to the awarded prices in more than 30 provinces) and (ii) going through all necessary internal review and approval procedures by the president and various departments (including but not limited to the procurement department, finance department, legal department, quality department and operation department) of the Company and/or its subsidiaries, the Company and/or its subsidiaries will determine whether to accept the procurement price of specific product as offered by members of the CNPGC Group. If the Company and/or its subsidiaries, after taking into consideration all the above-mentioned factors, consider that the procurement price offered by members of the CNPGC Group is not in the best interest of the Company and its shareholders, or is not fair and reasonable, they will make the decision not to purchase such products from the CNPGC Group.

Payment Arrangements: Payment arrangements will be negotiated by the parties and stated in individual implementation agreements, but shall be the same as the arrangement with other independent third parties.

Implementation Agreements: Members of the Group and members of the CNPGC Group will enter into, from time to time and as necessary, individual implementation agreements to set out the specific terms and conditions in respect of the procurement of the products thereunder.

Any such implementation agreements will be within the ambit of the 2020 Procurement Framework Agreement and shall not contravene the provisions of the 2020 Procurement Framework Agreement.

2. Proposed Annual Caps for the Three Years Ending 31 December 2023

Historical figures

Historical transaction amount between the Group and the CNPGC Group under the 2017 Procurement Framework Agreement is as follows:

Transactions	Year ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Six months ended 30 June 2020 (RMB)
Amount paid by the Group to the CNPGC Group under the 2017 Procurement Framework Agreement	4,448 million	5,079 million	2,259 million ^{Note}

Note: The statistics only reflects the amount paid by the Group to the CNPGC Group under the 2017 Procurement Framework Agreement for the six months ended 30 June 2020. Taking into account the historical procurement amount paid by the Group to the CNPGC Group and the slowdown of the procurement transactions as a result of outbreak of the COVID-19 pandemic in the first half of 2020, it is estimated that the majority of the transaction amount under the 2017 Procurement Framework Agreement for the year ending 31 December 2020 will be recorded in the second half of 2020.

Proposed annual caps for the three years ending 31 December 2023

The Directors expect the annual caps for the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement for the three years ending 31 December 2023 to be as follows:

Transactions	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Transaction amount between the Group and the CNPGC Group under the 2020 Procurement Framework Agreement	7,000 million	8,000 million	9,000 million

Basis of determination of the annual caps

The above estimated annual caps for the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement were mainly determined with reference to the historical transaction figures as listed above and after taking into consideration the following factors:

- (i) the number of customers of the Group is expected to continuously increase over the next three years, which will lead to the increase in the Group's demand for pharmaceutical products, personal care products, medical devices, health products and other products, as well as the purchase of relevant products by the Group from the CNPGC Group. The expected increase in the number of customers of the Group in the next three years is mainly attributable to: (a) the expected significant increase of the Group's market share in the pharmaceutical distribution business over the next three years due to the Group's seizing of market share and optimizing of network layout during the period of industry's continuous market concentration resulting from the implementation of policies such as the "volume-based procurement" policy; (b) the expected continuous increase of the scale of retail business operated by the Group in the next three years as a result of the Group's continuous strategic focusing on the retail business; and (c) new customers such as urban hospital consortium, county hospital consortium, private medical institutions and Internet hospitals brought by the Group's own business expansion and further expansion of sales network.

- (ii) with the aging of China's population, the increasing demand for health and medical services, and the further promotion and deepening of China's medical and health system reform by the government, it is expected that the size of China's pharmaceutical market will continue to grow in the next three years. According to statistics from IQVIA, it is estimated that in the next three years, China's pharmaceutical market will grow as much as 3%-6% per year.
- (iii) taking into account the aforementioned growth factors for procurement demand and with reference to the historical transaction amounts of the Group's procurement of products from the CNPGC Group in 2018 and 2019 and the increase rate, it is estimated that the Group's procurement of related products from the CNPGC Group will increase at a rate of approximately 14% per year from 2021 to 2023, and it is expected that the transaction amount of the Group's purchases of pharmaceutical products, personal care products, medical devices, and health products from the CNPGC Group for the three years ending 31 December 2023 will not exceed RMB7,000 million, RMB8,000 million and RMB9,000 million, respectively.
- (iv) the estimated transaction amounts mentioned in paragraph (iii) above also include a buffer of 5%-6% for each of the three years ending 31 December 2023 to accommodate any unexpected growth of the above-mentioned transaction amounts during the term of the 2020 Procurement Framework Agreement.

3. Reasons for and Benefit of Entering into the 2020 Procurement Framework Agreement

The CNPGC Group is the largest pharmaceutical group in China and is a well-known pharmaceutical corporation with outstanding competency in pharmaceutical industry and has developed good experience and service systems in respect of the products under the 2020 Procurement Framework Agreement.

The Directors are of the view that the 2020 Procurement Framework Agreement enables (i) the Group to secure a stable source of the relevant products, supplies and devices from the CNPGC Group in its ordinary course of business, thereby avoiding unnecessary disruption to the Group's operations; and (ii) the Group to fully leverage on advantages of the CNPGC Group to achieve better operating performance.

The following Directors, being Mr. Ma Ping, Mr. Hu Jianwei and Mr. Deng Jindong, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interest in the transactions contemplated under the 2020 Procurement Framework Agreement, and thus have abstained from voting on the relevant resolution at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

The Directors (including the independent non-executive Directors) are of the view that the 2020 Procurement Framework Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

III. THE 2020 SALES FRAMEWORK AGREEMENT

As the term of the 2017 Sales Framework Agreement will expire on 31 December 2020, the Company and CNPGC entered into the 2020 Sales Framework Agreement on 22 October 2020 for a term of three years from 1 January 2021 to 31 December 2023. When entering into the 2020 Sales Framework Agreement, the Company updated the pricing policy thereof, so as to meet the needs of the Group better. Except for this, the 2020 Sales Framework Agreement is not materially different from the 2017 Sales Framework Agreement.

1. The 2020 Sales Framework Agreement

Details of the 2020 Sales Framework Agreement are as follows:

Date: 22 October 2020

Parties: (i) the Company
(ii) CNPGC

Term of the Agreement: The 2020 Sales Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.

Major Terms and Conditions: Pursuant to the 2020 Sales Framework Agreement, the Group has agreed to sell products such as pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products to the CNPGC Group; and the CNPGC Group has agreed to purchase such products from the Group.

The Group will sell the relevant products to the CNPGC Group on a voluntary and non-compulsory basis and is entitled to sell the same to any other third parties.

Upon its expiry, the 2020 Sales Framework Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and the agreement of the parties, be renewed for a further term of three years.

Pricing Policy: The price of pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products sold by the Group to the CNPGC Group under the 2020 Sales Framework Agreement will be determined on an arm's length basis between the parties after mainly taking into account (i) the purchase cost (including products cost, cost of capital, logistic cost and others) for relevant products purchased by relevant members of the Group and (ii) the profit level of the Group on related products.

The finance department of the Company will be responsible for collecting data of the continuing connected transactions conducted by itself or any of its subsidiaries on a regular basis. The president and

various departments (including but not limited to the procurement department, finance department, legal department, quality department and operation department) of the Company and/or its subsidiaries will carry out all necessary internal review and approval procedures, and examine and compare specific agreements for such continuing connected transactions with those entered into with independent third parties, so as to ensure that the pricing policies of the relevant products offered by the Company and/or its subsidiaries to the CNPGC Group are comparable to those offered to independent third parties.

Payment Arrangements: Payment arrangements will be negotiated by the parties and stated in individual implementation agreements, but shall be the same as the arrangement with other independent third parties.

Implementation Agreement: Members of the Group and members of the CNPGC Group will enter into, from time to time and as necessary, individual implementation agreements to set out the specific terms and conditions in respect of the sale of the products thereunder.

Any such implementation agreements will be within the ambit of the 2020 Sales Framework Agreement and shall not contravene the provisions of the 2020 Sales Framework Agreement.

2. Annual Caps for the Three Years Ending 31 December 2023

Historical figures

Historical transaction amount between the Group and the CNPGC Group under the 2017 Sales Framework Agreement is as follows:

Transactions	Year ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Six months ended 30 June 2020 (RMB)
Amount paid by the CNPGC Group to the Group under the 2017 Sales Framework Agreement	911 million	1,114 million	746 million

Annual caps for the three years ending 31 December 2023

The Directors expect the annual caps for the continuing connected transactions contemplated under the 2020 Sales Framework Agreement for the three years ending 31 December 2023 to be as follows:

Transactions	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Transaction amount between the CNPGC Group and the Group under the 2020 Sales Framework Agreement	1,800 million	2,000 million	2,150 million

Basis of determination of the annual caps

The above annual caps for the continuing connected transactions contemplated under the 2020 Sales Framework Agreement were mainly determined with reference to the historical transaction figures as listed above and after taking into consideration the following factors:

- (i) each of the Group and the CNPGC Group will continue to expand its business through various acquisitions in the next three years, which will lead to an increase in the demand of the CNPGC Group for pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products purchased from the Group.
- (ii) with the aging of China's population, the increasing demand for health and medical services, and the further promotion and deepening of China's medical and health system reform by the government, it is expected that the size of China's pharmaceutical market will also continue to grow in the next three years. It is estimated the growth of such industries will also lead to an increase in the CNPGC Group's procurement demand from the Group.
- (iii) a buffer is included in each of the annual caps for the three years ending 31 December 2023 to accommodate any unexpected increase in the aforesaid transaction amount during the term of the 2020 Sales Framework Agreement.

3. Reasons for and Benefit of Entering into the 2020 Sales Framework Agreement

The CNPGC Group is the largest pharmaceutical group in China and is a well-known pharmaceutical corporation with outstanding competency in pharmaceutical industry.

The Directors are of the view that the 2020 Sales Framework Agreement enables (i) the Group to have stable customers to sell products such as pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products in its ordinary course of business, thereby avoiding unnecessary disruption to the Group's operations; and (ii) the Group to fully leverage on advantages of the CNPGC Group to achieve better operating performance.

The following Directors, being Mr. Ma Ping, Mr. Hu Jianwei and Mr. Deng Jindong, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interest in the transactions contemplated under the 2020 Sales Framework Agreement, and thus have abstained from voting on the relevant resolution at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

The Directors (including the independent non-executive Directors) are of the view that the 2020 Sales Framework Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

IV. THE 2020 EPC GENERAL CONTRACTING SERVICE FRAMEWORK AGREEMENT

As the term of the 2017 EPC General Contracting Service Framework Agreement will expire on 31 December 2020, the Company and CNPGC entered into the 2020 EPC General Contracting Service Framework Agreement on 22 October 2020 for a term of three years from 1 January 2021 to 31 December 2023. The 2020 EPC General Contracting Service Framework Agreement is not materially different from the 2017 EPC General Contracting Service Framework Agreement.

1. The 2020 EPC General Contracting Service Framework Agreement

Details of the 2020 EPC General Contracting Service Framework Agreement are as follows:

Date:	22 October 2020
Parties:	(i) the Company (ii) CNPGC
Scope of Services:	The CNPGC Group will provide EPC (Engineering, Procurement, and Construction) general contracting services to the Group pursuant to the EPC general contracting service agreements obtained through bidding process.
Term of the Agreement:	The 2020 EPC General Contracting Service Framework Agreement is for a term of three years commencing on 1 January 2021 and ending on 31 December 2023.
Pricing Policy:	Under the 2020 EPC General Contracting Service Framework Agreement, the service provider and the price of EPC general contracting services shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules. The CNPGC Group shall bid by stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》) and the specific requirements in bidding invitation documents made by the Group.

The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the project's technical requirements, the

criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid, etc. The Group's tender committee is responsible for (i) ensuring the process is in accordance with The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》); (ii) reviewing, evaluating and monitoring documents from outsourcing service providers based on the technical, commercial and pricing criteria and payment terms of relevant service fees, which will ensure the terms obtained by the Group from the CNPGC Group is no less favorable than those available from independent third parties; and (iii) grading the service providers and writing recommendation advice. The Group's tender committee is responsible for deciding which service provider will be awarded the project under the 2020 EPC General Contracting Service Framework Agreement.

Payment Arrangements:

For the EPC general contracting services provided by the CNPGC Group to the Group, the payment shall be made by the Group by installments in accordance with the time nodes of engineering, procurement, and construction or other methods agreed by the parties. The purchase prices under the 2020 EPC General Contracting Service Framework Agreement shall be paid in cash or other methods agreed by the parties. The service fees under the 2020 EPC General Contracting Service Framework Agreement shall be paid in accordance with the agreed payment terms stipulated in the specific implementation agreements.

Implementation Agreements:

Members of the Group and members of the CNPGC Group will enter into, from time to time and as necessary, individual implementation agreements to set out the specific terms and conditions in respect of the provision of EPC general contracting services thereunder.

Any such implementation agreements will be within the ambit of the 2020 EPC General Contracting Service Framework Agreement and shall not contravene the provisions of the 2020 EPC General Contracting Service Framework Agreement.

2. Annual Caps for the Three Years Ending 31 December 2023

Historical figures

Historical transaction amount between the Group and the CNPGC Group under the 2017 EPC General Contracting Service Framework Agreement is as follows:

Transactions	Year ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Six months ended 30 June 2020 (RMB)
Historical transaction amount paid by the Group to the CNPGC Group under the 2017 EPC General Contracting Service Framework Agreement	21 million	72 million	0

Note: There are uncertainties on the EPC projects as their implementation requires for policy support from local government. In addition, the EPC projects have long implementation timeframe. Therefore, the EPC projects actually performed from 2018 to 2020 were less than expected, resulting in lower actual transaction amount than the annual caps.

Annual caps for the three years ending 31 December 2023

The Directors expect the annual caps for the continuing connected transactions under the 2020 EPC General Contracting Service Framework Agreement for the three years ending 31 December 2023 to be as follows:

Transactions	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Transaction amount between the Group and the CNPGC Group under the 2020 EPC General Contracting Service Framework Agreement	300 million	300 million	300 million

Basis of determination of the annual caps

In arriving at the above estimated annual caps for the continuing connected transactions under the 2020 EPC General Contracting Service Framework Agreement, the Directors have taken into consideration the following factors:

- (i) the historical transaction figures of the continuing connected transactions under the 2017 EPC General Contracting Service Framework Agreement as listed above.
- (ii) the market conditions and the economic outlook of the PRC during the three years ending 31 December 2023.
- (iii) particulars about the industrial construction projects and logistics construction projects expected to be conducted by the Group by way of EPC general contracting during the three years ending 31 December 2023 and their respective estimated prices, according to the project construction planning of the Group, and based on the demand for business development and the requirements of satisfying the GSP standards.

- (iv) the increased probability of the CNPGC Group being awarded a tender in the tendering and bidding projects in relation to EPC general contracting services of the Group, with the business development of the CNPGC Group.
- (v) a buffer is included in each of the annual caps for the three years ending 31 December 2023 to accommodate any unexpected increase in the aforesaid transaction amount during the term of the 2020 EPC General Contracting Service Framework.

3. Reasons for and Benefits of Entering into the 2020 EPC General Contracting Service Framework Agreement

Due to the demand for business development and the requirements of satisfying the GSP standards, the Group expects that in the coming financial years, it will continuously develop industrial construction projects and logistics construction projects. In order to improve project efficiency, the Group will conduct the aforesaid engineering construction projects by way of EPC general contracting more frequently, and will select service provider through open tendering process in accordance with relevant laws and regulations. The CNPGC Group may participate in the bidding process as a provider of EPC general contracting services. The appointment of the CNPGC Group as a provider of EPC general contracting services for the projects of the Group is subject to a successful tender in a competitive tendering process governed by the relevant laws and regulations in the PRC, and such type of transactions will constitute continuing connected transactions of the Company pursuant to the Hong Kong Listing Rules.

The main purpose of entering into the 2020 EPC General Contracting Service Framework Agreement is to avoid undue delay in the construction progress of the relevant projects which will otherwise have to implement its duties for information disclosure under the Hong Kong Listing Rules in relation to connected transactions for individual implementation agreements, so as to improve the efficiency of the Group's approval process of such transactions.

The following Directors, being Mr. Ma Ping, Mr. Hu Jianwei and Mr. Deng Jindong, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interest in the transactions contemplated under the 2020 EPC General Contracting Service Framework Agreement, and thus have abstained from voting on the relevant resolution at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

As such, the Directors (including the independent non-executive Directors) are of the view that the 2020 EPC General Contracting Service Framework Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole.

V. THE 2020 FINANCIAL SERVICES FRAMEWORK AGREEMENT

As the term of the 2017 Financial Services Framework Agreement will expire on 31 December 2020, the Company and Sinopharm Group Finance Company entered into the 2020 Financial Services Framework Agreement on 22 October 2020 for a term of three years from 1 January 2021 to 31 December 2023, subject to the approval by the Independent Shareholders at the general meeting of the Company. The 2020 Financial Services Framework Agreement is not materially different from the 2017 Financial Services Framework Agreement.

1. The 2020 Financial Services Framework Agreement

Details of the 2020 Financial Services Framework Agreement are as follows:

Date: 22 October 2020

Parties: (i) the Company
(ii) Sinopharm Group Finance Company

Term of the Agreement: Subject to the approval by the Independent Shareholders, the 2020 Financial Services Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.

Financial Services Provided by Sinopharm Group Finance Company to the Company and/or Its Subsidiaries: Pursuant to the 2020 Financial Services Framework Agreement, the Company and/or its subsidiaries will, from time to time, utilize the following financial services available from Sinopharm Group Finance Company as is deemed necessary. Such services include:

- deposit services;
- loan and entrustment loan services;
- bill discounting and acceptance services, finance lease services, and settlement services; and
- other services as approved by the CBIRC.

Principle of the Provision of Services: Under the 2020 Financial Services Framework Agreement, Sinopharm Group Finance Company has undertaken to the Company that whenever it provides financial services to the Company and/or its subsidiaries, the conditions thereof shall neither be less favorable than those offered to other members of the CNPGC Group, nor be less favorable than those available to the Company and/or its subsidiaries from commercial banks or other financial institutions for comparable services.

The Company and/or its subsidiaries will utilize the financial services of Sinopharm Group Finance Company on a voluntary and non-compulsory basis and is not obliged to engage Sinopharm Group Finance Company for any particular service.

Sinopharm Group Finance Company may, from time to time, enter into separate individual financial service agreement with the Company and/or its subsidiaries for the provision of specific financial services, provided that the principles as agreed in the 2020 Financial Services Framework Agreement must be followed.

Pricing Policy:

Fees and charges payable by the Company and/or its subsidiaries to Sinopharm Group Finance Company under the 2020 Financial Services Framework Agreement are determined on the following basis:

- Deposit services: interest rates shall be in compliance with the requirements on interest rates prescribed by the PBOC for such type of deposits, and shall not be lower than each of (i) the interest rates offered by Sinopharm Group Finance Company to other members of the CNPGC Group for the same category of deposits; and (ii) the interest rates offered to the Company and/or its subsidiaries by general commercial banks for the same category of deposits.
- Loan services: interest rates shall be in compliance with the requirements on interests prescribed by the PBOC for such type of loans, and shall not be higher than each of (i) the interest rates offered by Sinopharm Group Finance Company to other members of the CNPGC Group for the same category of loans; and (ii) the interest rates offered to the Company and/or its subsidiaries by general commercial banks for the same category of loans.
- Other Financial Services: the interests or service fees charged for Other Financial Services shall (i) comply with the standard rates as promulgated by the PBOC or the CBIRC for comparable financial services from time to time (if applicable); (ii) be not higher than the interests or service fees charged by general commercial banks from the Company and/or its subsidiaries for comparable financial services; and (iii) be not higher than the interests or service fees charged by Sinopharm Group Finance Company for comparable financial services from other members of the CNPGC Group.

Sinopharm Group Finance Company may provide other services to the Company and/or its subsidiaries as may be approved by the CBIRC in the future. The fees and charges for such services to be provided shall: (i) comply with the standard rates as promulgated by the PBOC or the CBIRC from time to time (if applicable) for comparable financial services; (ii) be not higher than the fees charged by commercial banks from the Company and/or its subsidiaries for comparable financial services; and (iii) be not higher than the fees charged by Sinopharm Group Finance Company for comparable financial services from other members of the CNPGC Group.

2. Proposed Annual Caps for the Three Years Ending 31 December 2023

Historical figures

Historical transaction amount between the Group and Sinopharm Group Finance Company under the 2017 Financial Services Framework Agreement is as follows:

Transactions	Year ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Six months ended 30 June 2020 (RMB)
Maximum daily balance of the deposits of the Group placed with Sinopharm Group Finance Company	3,483 million	3,458 million	3,466 million
Interests/service fees paid by the Group for Other Financial Services provided by Sinopharm Group Finance Company	150 million	169 million	95 million

Proposed annual caps for the three years ending 31 December 2023

The Directors expect the annual caps for the continuing connected transactions contemplated under the 2020 Financial Services Framework Agreement for the three years ending 31 December 2023 to be as follows:

Transactions	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Maximum daily balance of the deposits of the Group placed with Sinopharm Group Finance Company	5,000 million	5,000 million	5,000 million
Interests/service fees payable by the Group for Other Financial Services provided by Sinopharm Group Finance Company	500 million	500 million	500 million

Basis of determination of the annual caps

Under the above-mentioned 2020 Financial Services Framework Agreement, the maximum daily balance of the deposits of the Group placed with Sinopharm Group Finance Company from 2021 to 2023 is determined mainly with reference to the historical transaction data set out above and taking into account the following factors:

- (i) from 2018 to 2020, the maximum daily balance of the deposits of the Group placed with Sinopharm Group Finance Company was RMB3,483 million, RMB3,458 million and RMB3,466 million, respectively, which were all very close to the annual cap of RMB3,500 million for each of the years from 2018 to 2020. It is expected that the current deposits level

will continue to be maintained in the next three years.

- (ii) at the end of 2018, the Company acquired 60% equity interest in CSIMC. After the completion of the acquisition, in order to ensure that the deposits of the Group (as enlarged by the acquisition) placed with Sinopharm Group Finance Company do not exceed the annual caps, CSIMC and its subsidiaries transferred part of their deposits placed with Sinopharm Group Finance Company to third-party commercial banks. If CSIMC and its subsidiaries choose to transfer these deposits back to Sinopharm Group Finance Company in the next three years, it is expected that the maximum daily balance of deposits of the Group placed with Sinopharm Group Finance Company in the next three years will increase by approximately RMB1.5 billion per year. This is estimated with reference to the historical maximum daily balance of deposits of CSIMC and its subsidiaries placed with Sinopharm Group Finance Company before the completion of the acquisition (for example, the maximum daily balance of deposits of CSIMC and its subsidiaries placed with Sinopharm Group Finance Company in 2018 was approximately RMB1.433 billion).

Under the above-mentioned 2020 Financial Services Framework Agreement, the interest/service fees payable by the Group to Sinopharm Group Finance Company for its provision of Other Financial Services from 2021 to 2023 are determined mainly with reference to the historical transaction data set out above and taking into account the following factors:

- (i) in the next three years, the business of Sinopharm Group Finance Company will continue to grow. Sinopharm Group Finance Company will also continue to enlarge the scope of services to the Group, extend service levels, expand credit lines, diversify financial products, and provide the Group with more diverse financial services such as deposit products, convenient fund settlement, self-operated loans with relatively flexible terms, bill business, and accounts receivable factoring business and Other Financial Services. The interest/service fees payable by the Group to Sinopharm Group Finance Company for Other Financial Services will also increase accordingly.

3. Continuing Connected Transactions Exempt from Reporting, Announcement, Annual Review and Independent Shareholders' Approval Requirements

The loans and entrustment loans to be provided by or through Sinopharm Group Finance Company to the Company and/or its subsidiaries under the 2020 Financial Services Framework Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Group. Pursuant to the 2020 Financial Services Framework Agreement and the individual entrustment loan service agreement to be signed thereunder between CNPGC, the Company and Sinopharm Group Finance Company, such loans will be provided on normal commercial terms which are not less favorable than those offered by independent third parties for comparable loans in the PRC, and no security over the assets of the Group will be granted in respect of such financial assistance. Therefore, the transactions in respect of the loans and entrustment loans provided by or through Sinopharm Group Finance Company to the Company and/or its subsidiaries under the 2020 Financial Services Framework Agreement are exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. With regard to the service fees charged by Sinopharm Group Finance Company for the provision of entrustment loan agency services to the Company and/or its subsidiaries, the Company has included such fees into the total transaction amount of the Other Financial Services for the calculation of the relevant percentage ratios and the determination of the annual caps.

4. Reasons for and Benefit of Entering into the 2020 Financial Services Framework Agreement

The Directors are of the view that utilizing financial services from Sinopharm Group Finance Company continuously has the following benefits:

- (i) the 2020 Financial Services Framework Agreement is non-exclusive and does not limit the Group's choice in engaging any banks or financial institutions to satisfy its need for financial services. Accordingly, the entry into of the 2020 Financial Services Framework Agreement will simply avail the Group to one more service provider and encourage all financial services providers to offer more competitive terms to the Group.
- (ii) the Group will be able to use Sinopharm Group Finance Company as a medium between the Company and its subsidiaries to more effectively allocate funds among the Group and manage its existing capital and cash flow.
- (iii) the Group expects to benefit from Sinopharm Group Finance Company's better understanding of the Group's operations. Such understanding will enable Sinopharm Group Finance Company to offer more favorable, diversified and flexible financial services than third-party commercial banks. Meanwhile, Sinopharm Group Finance Company will provide the Company and its subsidiaries with settlement service for free, which also enables the Group to save settlement expenses.
- (iv) in addition, in respect of the deposit services, the interest rates offered by Sinopharm Group Finance Company will not be lower than those offered by commercial banks. The procedures for withdrawal of the deposits are convenient and the categories and term of the deposits are flexible, which will improve the capital utilization efficiency of the Group.
- (v) in respect of the loan services, Sinopharm Group Finance Company offers the Group with favorable interest rates as well as efficient and convenient procedures, which will lower the financing cost of the Group.
- (vi) in respect of the Other Financial Services, by taking advantage of the familiarity with the Group, Sinopharm Group Finance Company can formulate a tailored, flexible and personalized financial service plan for the Group, which is characterized by rapid responses, favorable rates and strong pertinence.

Measures taken for protecting the interests of the Company and its shareholders as a whole in the deposit services transaction

As far as the Directors are aware, Sinopharm Group Finance Company has established stringent internal control measures to ensure effective risk management and compliance with relevant laws and regulations of the PRC. The internal control measures adopted by Sinopharm Finance Group Company include:

- (i) as a non-bank financial institution established with the approval of the CBIRC, Sinopharm Group Financial Company is subject to the routine supervision by the CBIRC. It is subject to the Measures for the Administration of Enterprise Group Finance Companies (《企業集團財務公司管理辦法》) and other regulatory requirements, including the requirements on capital adequacy ratio, guarantee ratio and long-term investment ratio. Since its establishment until the date of this announcement, Sinopharm Group Finance Company has complied with all the relevant requirements from the CBIRC in respect of the above ratios and applicable rules and regulations stipulated by the CBIRC;
- (ii) Sinopharm Group Financial Company is subject to the direct supervision of the PBOC to

maintain deposit reserve in full and timely manner, and the deposit reserve ratio of Sinopharm Group Financial Company shall not be lower than the threshold permitted by the PBOC at all times. Since its establishment until the date of this announcement, Sinopharm Group Financial Company has complied with such regulatory requirements in respect of the deposit reserves;

- (iii) Sinopharm Group Financial Company has formulated a comprehensive internal control management system and risk management system, implemented internal audit supervision system, established risk control committee responsible for its board of directors, established risk management department and audit department to supervise and audit its business activities. Each business department formulates corresponding standardized operation procedures, operation standards and risk prevention measures according to each business, and predicts, evaluates and controls all kinds of risks in business operations; and
- (iv) Sinopharm Group Finance Company has formulated a series of business systems and operating procedures such as the Measures for the Administration of Accounts (《賬戶管理辦法》), the Measures for the Administration of Settlement Business (《結算業務管理辦法》), the Measures for the Administration of Deposit Business (《存款業務管理辦法》) and the Measures for the Administration of Payment and Settlement Authority (《支付結算權限管理辦法》) in accordance with rules and regulations prescribed by the relevant national authorities and the PBOC. These measures provide the operating specifications and control standards for different settlement and deposit businesses, and effectively control business risks. Sinopharm Group Finance Company has also formulated a series of administration measures and operating procedures such as the Measures for the Administration of Customer Credit Rating (《客戶信用評級管理辦法》), the Measures for the Administration of General Credit (《綜合授信管理辦法》) and the Measures for the Administration of Self-operated Loan Business (《自營貸款業務管理辦法》) in accordance with the Lending General Provisions (《貸款通則》), the Measures for the Administration of Enterprise Group Finance Companies (《企業集團財務公司管理辦法》) and the relevant provisions promulgated by the CBIRC and the PBOC, so as to effectively control the risks of credit business.

In addition, at the establishment of Sinopharm Group Finance Company, the board of directors of its parent company CNPGC issued a letter of commitment to the CBIRC, in which CNPGC undertook that it would correspondingly increase its capital investment in Sinopharm Group Finance Company so as to meet its actual needs to solve such difficulties in case that Sinopharm Group Finance Company encounters operational difficulties.

Meanwhile, as described below in the section headed “Internal control in relation to the continuing connected transactions contemplated under the 2020 Financial Services Framework Agreement”, the Group also adopted reasonable internal control procedures and corporate governance measures in relation to its utilization of the financial services provided by Sinopharm Group Finance Company.

The following Directors, being Mr. Ma Ping, Mr. Hu Jianwei and Mr. Deng Jindong, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interest in the transactions contemplated under the 2020 Financial Services Framework Agreement, and thus have abstained from voting on the relevant resolutions at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolutions at the Board meeting.

In conclusion, the Directors (including the independent non-executive Directors) are of the view that the 2020 Financial Services Framework Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions

therein as well as the annual caps for the continuing connected transactions thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole.

VI. THE 2020 FACTORING SERVICES FRAMEWORK AGREEMENT

As the term of the 2018 Factoring Services Framework Agreement will expire on 31 December 2020, the Company and the Factoring Company entered into the 2020 Factoring Services Framework Agreement on 22 October 2020 for a term of three years from 1 January 2021 to 31 December 2023. The 2020 Factoring Services Framework Agreement is not materially different from the 2018 Factoring Services Framework Agreement.

1. The 2020 Factoring Services Framework Agreement

Details of the 2020 Factoring Services Framework Agreement are as follows:

Date:	22 October 2020
Parties:	(i) the Company; and (ii) the Factoring Company
Scope of services:	recourse and non-recourse factoring and other commercial factoring services (including sales sub-account management services, accounts receivable collection services and other permitted business of the Factoring Company).
Term of the Agreement	The 2020 Factoring Services Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.
Principle of the Provision of Services:	<p>Under the 2020 Factoring Services Framework Agreement, the Factoring Company has undertaken to the Company that whenever it provides Commercial Factoring Services to the Company and/or its subsidiaries, the conditions thereof shall be no less favorable than those available to the Company and/or its subsidiaries from independent third parties for comparable Commercial Factoring Services.</p> <p>The Company and/or its subsidiaries will utilize the Commercial Factoring Services of the Factoring Company on a voluntary and non-compulsory basis and is not obliged to engage the Factoring Company for any Commercial Factoring Services.</p> <p>The Factoring Company may, from time to time, enter into separate individual agreement with the Company and/or its subsidiaries for the provision of specific services, provided that the principles and pricing policy as agreed in the 2020 Factoring Services Framework Agreement must be followed.</p>
Pricing Policy:	The comprehensive pricing (including interest and fees) of the Commercial Factoring Services charged by the Factoring Company shall be fair and reasonable and shall not be higher than the comprehensive pricing of the comparable Commercial Factoring Services provided by independent third parties to the Group during

the same period.

2. Proposed Annual Caps for the Three Years Ending 31 December 2023

Historical figures

Historical transaction amount between the Group and the Factoring Company under the 2018 Factoring Services Framework Agreement is as follows:

Transactions	Nine months ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Six months ended 30 June 2020 (RMB)
Interests/fees paid by the Group for Commercial Factoring Services provided by the Factoring Company	20 million	69 million	24 million

Annual caps for the three years ending 31 December 2023

The Directors expect the annual caps for the continuing connected transactions contemplated under the 2020 Factoring Services Framework Agreement for the three years ending 31 December 2023 to be as follows:

Transactions	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Interests/fees payable by the Group for Commercial Factoring Services provided by the Factoring Company	150 million	180 million	200 million

Basis of determination of the annual caps

The above estimated annual caps for the continuing connected transactions contemplated under the 2020 Factoring Services Framework Agreement are determined with reference to the historical transaction amount as stated above and the following factors:

- (i) The registered capital of the Factoring Company increased from RMB100 million to RMB200 million in 2019, which was beneficial to the improvement of its business capacity and the continuous provision of greater financial support to the Group.
- (ii) Taking into account the financing needs of the Group in terms of obtaining Commercial Factoring Services from the Factoring Company, it is estimated that the annual factoring amount for each of the three years ending 31 December 2023 will amount to RMB4 billion, RMB4.8 billion and RMB5 billion, respectively, and the interests/service fees payable by the Group for the Commercial Factoring Services provided by the Factoring Company will also increase accordingly.
- (iii) The prevailing market conditions of the interests/service fees charged for Commercial

Factoring Services are also taken into consideration.

3. Reasons for and Benefit of Entering into the 2020 Factoring Services Framework Agreement

The Group accepts factoring services from various commercial banks as well as Sinopharm Group Finance Company, a subsidiary of CNPGC. The execution of the 2020 Factoring Services Framework Agreement would enable the Group to expand the financing channels and optimize its financial structure. The efficiency of capital usage of the Group would also be improved.

As far as the Directors are aware, the Factoring Company has established stringent internal control measures to ensure effective risk management and compliance with relevant laws and regulations of the PRC. Meanwhile, the Group will also adopt reasonable internal control procedures and corporate governance measures in relation to its utilization of the Commercial Factoring Services provided by the Factoring Company.

The following Directors, being Mr. Ma Ping, Mr. Hu Jianwei and Mr. Deng Jindong, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interest in the transactions contemplated under the 2020 Factoring Services Framework Agreement, and thus have abstained from voting on the relevant resolution at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

As such, the Directors (including the independent non-executive Directors) are of the view that the 2020 Factoring Services Framework Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual caps for the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

VII. MEASURES OF INTERNAL CONTROL

To ensure the Company's conformity with the above pricing policies in relation to the continuing connected transactions contemplated under each of the 2020 Procurement Framework Agreement, the 2020 Sales Framework Agreement, the 2020 Financial Services Framework Agreement, the 2020 EPC General Contracting Service Framework Agreement and the 2020 Factoring Services Framework Agreement from time to time, the Company has adopted and would continue to strengthen a series of internal control policies for its daily operation.

Internal control in relation to the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement

Prior to entering into the specific agreement for certain specific product, the president and various departments (including but not limited to the procurement department, finance department, legal department, quality department and operation department) of the Company and/or its subsidiaries will conduct all necessary internal review and approval procedures and then determine whether to accept the procurement price of specific product as offered by members of the CNPGC Group.

In addition, the finance department, the audit department and the quality department of the Company will also supervise the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement. These departments are responsible for (i) collecting detailed information (including but not limited to the pricing terms, payment arrangements and actual transaction amount under the specific implementation agreements) of the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement on a regular basis; (ii) monitoring whether the

transaction terms and pricing and other terms under each of the individual implementation agreements are consistent with the principles established under the 2020 Procurement Framework Agreement; (iii) conducting continuous evaluation on the fairness of the transaction terms and the pricing terms; and (iv) reporting relevant information to the Board in a timely manner.

Internal control in relation to the continuing connected transactions contemplated under the 2020 Sales Framework Agreement

Prior to entering into the specific agreement for certain specific product, the president and various departments (including but not limited to the procurement department, finance department, legal department, quality department and operation department) of the Company and/or its subsidiaries will conduct all necessary internal review and approval procedures, and examine and compare specific agreements for such continuing connected transactions with those entered into with independent third parties, so as to ensure that the pricing policies of the relevant products offered by the Company and/or its subsidiaries to the CNPGC Group are comparable to those offered to independent third parties.

In addition, the finance department, the audit department and the quality department of the Company will also supervise the continuing connected transactions contemplated under the 2020 Sales Framework Agreement. These departments are responsible for (i) collecting detailed information (including but not limited to the pricing terms, payment arrangements and actual transaction amount under each of the individual implementation agreements) of the continuing connected transactions contemplated under the 2020 Sales Framework Agreement on a regular basis; (ii) monitoring whether the transaction terms and pricing and other terms under each of the individual implementation agreements are consistent with the principles established under the 2020 Sales Framework Agreement; (iii) conducting continuous evaluation on the fairness of the transaction terms and the pricing terms; and (iv) reporting relevant information to the Board in a timely manner.

Internal control in relation to the continuing connected transactions contemplated under the 2020 EPC General Contracting Service Framework Agreement

In respect of the continuing connected transactions contemplated under the 2020 EPC General Contracting Service Framework Agreement, the internal control policies are conducted and supervised by the tender committee, the project management and technical service department, the finance department and the legal and compliance department of the Company. These departments are responsible for (i) collecting detailed information (including but not limited to the pricing terms, payment arrangements and actual transaction amount under each of the individual implementation agreements) of the continuing connected transactions contemplated under the 2020 EPC General Contracting Service Framework Agreement; (ii) monitoring whether the transaction terms and pricing and other terms under each of the individual implementation agreements are consistent with the principles established under the 2020 EPC General Contracting Service Framework Agreement; (iii) conducting continuous evaluation on the fairness of the transaction terms and the pricing terms; and (iv) reporting relevant information to the Board in a timely manner.

Internal control in relation to the continuing connected transactions contemplated under the 2020 Financial Services Framework Agreement

In respect of the continuing connected transactions contemplated under the 2020 Financial Services Framework Agreement, the Company has adopted and would continue to take the following review procedures and approval process against the following assessment criteria when obtaining the finance services from Sinopharm Group Finance Company:

- (i) Where a need for the financial services arises, the designated staff of the Group would obtain the rates and terms offered by Sinopharm Group Finance Company and not less than three major and

independent PRC commercial banks for comparison against the assessment criteria referred to in paragraph (iii) below;

(ii) If after comparison, the designated staff confirmed that the rates and terms provided by Sinopharm Group Finance Company are no less favourable than those offered by other major and independent PRC commercial banks and are in compliance with the terms set out in the 2020 Financial Services Framework Agreement, they would submit the application to the head of the finance department or the head of the fund management department and chief financial officer of the Company and/or its subsidiaries for final approval.

(iii) Assessment Criteria:

a) Deposit: the designated staff would compare the interest rate offered by Sinopharm Group Finance Company with those offered by the major commercial banks in the PRC, and compare the interest rates offered to the Group and the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Company for the same category of deposits, and if the former is not lower than the latter, the Group would obtain deposit services from Sinopharm Group Finance Company.

b) Loan: the designated staff would compare the interest rate offered by Sinopharm Group Finance Company with those offered by the major commercial banks in the PRC, and compare the interest rates offered to the Group and the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Company for the same category of loans, and if the former is not higher than the latter, the Group would obtain loan services from Sinopharm Group Finance Company.

c) Entrusted loan, bill acceptance, discount of bills, settlement, finance lease and other services: the designated staff would compare the interests/service fees charged by Sinopharm Group Finance Company with those charged by the major commercial banks in the PRC, and compare the interests/service fees charged from the Group and the interests/service fees charged from other members of the CNPGC Group by Sinopharm Group Finance Company for the same category of services, and if the former are not higher than the latter, the Group would obtain the above-mentioned services from Sinopharm Group Finance Company.

(iv) Sinopharm Group Finance Company will monitor the balance of deposits on each business day. Daily reports on the balance of the Group's deposits placed with Sinopharm Group Finance Company at the end of each month and the maximum deposit balance for the month will be delivered to the Company by Sinopharm Group Finance Company on the first business day of the following month. Furthermore, once the Group's deposit balance placed with Sinopharm Group Finance Company reaches 80% of the annual cap of that year, Sinopharm Group Finance Company will start to report such situation to the finance department of the Company on the following day so that the Company can also carry out real-time monitoring until the daily deposit balance falls below 80% of the annual cap of that year, and then the monthly reporting mechanism will be resumed.

Internal control in relation to the continuing connected transactions contemplated under the 2020 Factoring Services Framework Agreement

In respect of the continuing connected transactions contemplated under the 2020 Factoring Services Framework Agreement, the Company has adopted and would continue to take the following review procedures and approval process against the following assessment criteria when obtaining Commercial Factoring Services from the Factoring Company:

- (i) Where a need for the Commercial Factoring Services arises, the designated staff of the Group would obtain the rates and terms offered by the Factoring Company and not less than three major and independent PRC commercial banks or commercial factoring companies; and
- (ii) If after comparison, the designated staff confirmed that the rates and terms provided by the Factoring Company are no less favourable than those offered by other major and independent PRC commercial banks or commercial factoring companies and are in compliance with the terms set out in the 2020 Factoring Services Framework Agreement, they would submit the application to the head of the finance department or the head of fund management department and chief financial officer of the Company and/or its subsidiaries for final approval.

In addition, the independent non-executive Directors of the Company will continue to review the non-exempt continuing connected transactions contemplated under each of the 2020 Procurement Framework Agreement, the 2020 Sales Framework Agreement, the 2020 Financial Services Framework Agreement, the 2020 EPC General Contracting Service Framework Agreement and the 2020 Factoring Services Framework Agreement to ensure that such agreements are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditors of the Company would also conduct an annual review on the pricing terms and annual caps of such non-exempt continuing connected transactions.

The Directors consider that the above methods and procedures can ensure the continuing connected transactions contemplated under each of the 2020 Procurement Framework Agreement, the 2020 Sales Framework Agreement, the 2020 Financial Services Framework Agreement, the 2020 EPC General Contracting Service Framework Agreement and the 2020 Factoring Services Framework Agreement will be conducted on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements.

VIII. HONG KONG LISTING RULES IMPLICATIONS

CNPGC is the ultimate controlling shareholder of the Company, therefore, CNPGC and its subsidiaries, Sinopharm Group Finance Company and the Factoring Company are connected persons of the Company under the Hong Kong Listing Rules. The transactions under each of the 2020 Procurement Framework Agreement, the 2020 Sales Framework Agreement, the 2020 EPC General Contracting Service Framework Agreement, the 2020 Financial Services Framework Agreement and the 2020 Factoring Services Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.77 of the Hong Kong Listing Rules) in respect of the continuing connected transactions contemplated under each of the 2020 Sales Framework Agreement, the 2020 EPC General Contracting Service Framework Agreement and the 2020 Factoring Services Framework Agreement and the interests/service fees payable for the provision of Other Financial Services under the 2020 Financial Services Framework Agreement exceed 0.1% but are less than 5%, such agreements and the transactions thereunder are only subject to the reporting, announcement and annual review requirements, but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in respect of (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement; and (ii) the deposit services under the 2020 Financial Services Framework Agreement exceed 5%, such transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios in respect of the deposit services under the 2020 Financial Services Framework

Agreement exceed 5% but are less than 25%, the deposit services thereunder are also subject to the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

IX. THE EXTRAORDINARY GENERAL MEETING

An extraordinary general meeting of the Company will be convened to seek the approval of the Independent Shareholders with respect to (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof. CNPGC and its associates will abstain from voting on the relevant resolutions at the extraordinary general meeting.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders on (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, details of (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof, a letter from the Independent Board Committee and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with a notice convening the extraordinary general meeting, will be despatched to the Shareholders on or before 3 December 2020 as more time is needed for the preparation of the information to be contained therein.

X. GENERAL INFORMATION OF THE PARTIES

The Company

The Company is principally engaged in the distribution of pharmaceutical, healthcare products and medical devices, operation of retail pharmacies and production and sale of chemical reagents.

CNPGC

CNPGC is a wholly state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company, which is principally engaged in the research and development of pharmaceutical products, manufacturing, logistics and distribution, retail chains, medical health, engineering technology, professional exhibition, international operation business, financial investment and other businesses.

Sinopharm Group Finance Company

Sinopharm Group Finance Company is a non-bank financial institution established on 23 February 2012 upon the approval of the CBIRC, and is regulated by the PBOC and the CBIRC. Sinopharm Group Finance Company is owned as to 58.1818%, 9.0909%, 10.9091%, 10.9091% and 10.9091% by CNPGC, the Company, CNBG, CNTCM and Shyndec Pharmaceutical respectively, with the registered capital of RMB1.1 billion. CNBG, CNTCM and Shyndec Pharmaceutical are all subsidiaries of CNPGC.

Sinopharm Group Finance Company is engaged in the provision of financial services to the members

of the Group and the CNPGC Group which principally include deposit taking, provision of loans, bills acceptance and discounting, finance lease, entrustment loans, settlement services, guarantee, insurance agent business as well as Other Financial Services such as provision of credit certification, financial advisory and other advisory agency services, guarantee services and other services as may be approved by the CBIRC.

The Factoring Company

The Factoring Company is a company incorporated on 16 October 2017 under the laws of the PRC with limited liability and is a wholly-owned subsidiary of CNPGC with the registered capital of RMB200 million. The Factoring Company is principally engaged in commercial factoring services.

XI. DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meanings ascribed to them below:

“2017 EPC General Contracting Service Framework Agreement”	the EPC general contracting service framework agreement entered into between the Company and CNPGC on 27 October 2017 in relation to the provision of EPC (Engineering, Procurement, and Construction) general contracting services by the CNPGC Group to the Group
“2017 Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and Sinopharm Group Finance Company on 27 October 2017 in relation to the provision of the financial services by Sinopharm Group Finance Company to the Company and/or its subsidiaries
“2017 Procurement Framework Agreement”	the pharmaceutical products, personal-care supplies and medical devices procurement framework agreement entered into between the Company and CNPGC on 27 October 2017
“2017 Sales Framework Agreement”	the pharmaceutical products, personal-care supplies, medical devices, chemical reagents and laboratory supplies sales framework agreement entered into between the Company and CNPGC on 27 October 2017
“2018 Factoring Services Framework Agreement”	the factoring services framework agreement entered into between the Company and the Factoring Company on 23 March 2018 in relation to the provision of Commercial Factoring Services by the Factoring Company to the Group
“2020 EPC General Contracting Service Framework Agreement”	the EPC general contracting service framework agreement entered into between the Company and CNPGC on 22 October 2020 in relation to the provision of EPC (Engineering, Procurement, and Construction) general contracting services by the CNPGC Group to the Group
“2020 Factoring Services Framework Agreement”	the factoring services framework agreement entered into between the Company and the Factoring Company on 22

	October 2020 in relation to the provision of Commercial Factoring Services by the Factoring Company to the Group
“2020 Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and Sinopharm Group Finance Company on 22 October 2020 in relation to the provision of the financial services by Sinopharm Group Finance Company to the Company and/or its subsidiaries
“2020 Procurement Framework Agreement”	the procurement framework agreement entered into between the Company and CNPGC on 22 October 2020
“2020 Sales Framework Agreement”	the sales framework agreement entered into between the Company and CNPGC on 22 October 2020
“associates”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of directors of the Company
“CBIRC”	the China Banking and Insurance Regulatory Commission
“CNBG”	China National Biotech Group Company Limited (中國生物技術股份有限公司), a joint stock company incorporated in the PRC with limited liability
“CNPGC”	China National Pharmaceutical Group Corporation (中國醫藥集團有限公司), a state wholly-owned enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company
“CNPGC Group”	CNPGC and its subsidiaries and associates (excluding the Group)
“CNTCM”	China National Traditional Chinese Medicine Co., Limited (中國中藥有限公司), a company incorporated in the PRC with limited liability
“Commercial Factoring Services”	recourse and non-recourse commercial factoring and other commercial factoring services (including sales sub-account management services, accounts receivable collection services and other permitted business of the Factoring Company)
“Company”	Sinopharm Group Co. Ltd., (國藥控股股份有限公司), a joint stock company incorporated under the laws of the PRC with limited liability and whose H shares are listed and traded on the Hong Kong Stock Exchange
“controlling shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules

“CSIMC”	China National Scientific Instruments and Materials Co., Ltd. (中國科學器材有限公司), a company incorporated in the PRC with limited liability
“Director(s)”	the director(s) of the Company
“Factoring Company”	Sinopharm Puxin Commercial Factoring Company Limited (國藥樸信商業保理有限公司), a company incorporated under the laws of the PRC with limited liability
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent board committee comprising all of the independent non-executive Directors, who have no material interests in the 2020 Procurement Framework Agreement and the 2020 Financial Services Framework Agreement, namely Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung and Mr. Yu Weifeng
“Independent Financial Adviser”	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 to the Independent Board Committee and the Independent Shareholders in relation to (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof
“Independent Shareholders”	Shareholders other than CNPGC and its associates
“Other Financial Services”	bill acceptance and discounting services, finance lease services, settlement services and entrustment loan agency services provided by Sinopharm Group Finance Company to the Company and/or its subsidiaries under the 2017 Financial Services Framework Agreement or the 2020 Financial Services Framework Agreement, as the case may be
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China, which for the purpose of this announcement only (unless otherwise indicated)

	excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Shyndec Pharmaceutical”	Shanghai Shyndec Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司), a joint stock company incorporated in the PRC with limited liability
“Sinopharm Group Finance Company”	Sinopharm Group Finance Co., Ltd. (國藥集團財務有限公司), a company incorporated under the laws of the PRC with limited liability, which is a non-bank financial institution

By order of the Board
Sinopharm Group Co. Ltd.
Li Zhiming
Chairman

Shanghai, the PRC
22 October 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Li Zhiming, Mr. Yu Qingming and Mr. Liu Yong; the non-executive Directors of the Company are Mr. Chen Qiyu, Mr. Ma Ping, Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Wen Deyong, Ms. Guan Xiaohui and Ms. Feng Rongli; and the independent non-executive Directors of the Company are Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung and Mr. Yu Weifeng.

** The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name “Sinopharm Group Co. Ltd.”.*