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# **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)

### **CONTINUING CONNECTED TRANSACTIONS: ENTERING INTO THE 2022 PROCUREMENT FRAMEWORK AGREEMENT WITH NATONG GROUP COMPANY**

Reference is made to the announcement of the Company dated 28 July 2020 in relation to the 2020 Procurement Framework Agreement entered into between the Company and Natong Group Company.

The Board hereby announces that as the term of the 2020 Procurement Framework Agreement and the annual caps for the continuing connected transactions thereunder will expire on 31 December 2022, on 26 October 2022, the Company entered into the 2022 Procurement Framework Agreement with Natong Group Company for a term of three years from 1 January 2023 to 31 December 2025.

The Company estimates that the annual caps for the continuing connected transactions contemplated under the 2022 Procurement Framework Agreement for the three years ending 31 December 2025 will amount to RMB1,210 million, RMB1,440 million and RMB1,620 million, respectively.

#### **HONG KONG LISTING RULES IMPLICATIONS**

Beijing Natong holds 40% equity interest in CSIMC, a significant subsidiary of the Company. Natong Group Company is the holding company of Beijing Natong. Therefore, Natong Group Company is a connected person of the Company at the subsidiary level under the Listing Rules. Accordingly, the transactions under the 2022 Procurement Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.77 of the Listing Rules) exceed 1% but less than 5%, the transactions under the 2022 Procurement Framework Agreement shall be subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **I. BACKGROUND**

Reference is made to the announcement of the Company dated 28 July 2020 in relation to the 2020 Procurement Framework Agreement entered into between the Company and Natong Group Company.

The Board hereby announces that as the term of the 2020 Procurement Framework Agreement and the annual caps for the continuing connected transactions thereunder will expire on 31 December 2022, on 26 October 2022, the Company entered into the 2022 Procurement Framework Agreement with Natong Group Company for a term of three years from 1 January 2023 to 31 December 2025.

## **II. THE 2022 PROCUREMENT FRAMEWORK AGREEMENT**

As the term of the 2020 Procurement Framework Agreement will expire on 31 December 2022, on 26 October 2022, the Company entered into the 2022 Procurement Framework Agreement with Natong Group Company. When entering into the agreement, the Company added masks and other pandemic prevention materials into the procurement scope, so as to meet the needs of the Group better. Except for this, the 2022 Procurement Framework Agreement is not materially different from the 2020 Procurement Framework Agreement.

### **1. The 2022 Procurement Framework Agreement**

Details of the 2022 Procurement Framework Agreement are as follows:

Date: 26 October 2022

Parties: (i) the Company  
(ii) Natong Group Company

Term of the Agreement: The 2022 Procurement Framework Agreement shall come into effect after being signed by the legal representatives or authorized representatives of both parties and affixed with the company's official seals. The 2022 Procurement Framework Agreement shall be effective from 1 January 2023 to 31 December 2025.

Major Terms and  
Conditions:

Pursuant to the 2022 Procurement Framework Agreement, the Group has agreed to procure medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products as well as masks and other pandemic prevention materials from the Natong Group, and the Natong Group has agreed to sell such products to the Group.

The Group will procure relevant products from the Natong Group on a voluntary and non-compulsory basis and is entitled to procure aforementioned products from any other third parties.

The 2022 Procurement Framework Agreement will, upon expiry, subject to compliance with the relevant requirements under the Listing Rules and the agreement of the parties, be extended or renewed.

Pricing Policy:

The price of medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products as well as masks and other pandemic prevention materials procured by the Group from the Natong Group under the 2022 Procurement Framework Agreement will be offered by members of the Natong Group based on the bid-winning price won by members of the Natong Group in the public bidding procedures of the tender offices of Chinese government or hospitals, or the procurement price from medical institutions, deducting the gross profit of distributors at each level.

The Natong Group will on a semi-annual basis, provide the Company and/or its subsidiaries with the price strategy of the specific varieties of related products of the same business type and provide the Company and/or its subsidiaries with the procurement price list of the specific varieties of related products prior to entering into each individual implementation agreements. In the event of major changes in product prices due to changes in industry policies, it will further provide the latest price strategy of related products in a timely manner.

The Company and/or its subsidiaries, after considering a variety of factors relating to the specific product comprehensively, including but not limited to the price, quality, terms of payment, delivery method, after-sales service, gross profit and average price in the industry (which is obtained from public channels – the bidding prices of the relevant products, which are won by relevant members of the Natong Group and other independent third parties through their participation in the public bidding process of such products conducted by the tender offices of Chinese governments or hospitals) and going through all necessary internal review and approval procedures of the president and various departments including but not limited to business department, finance department, legal and compliance department, quality department and operation department of the Company and/or its subsidiaries, will determine whether to accept the procurement price of specific product as offered by members of the Natong Group. In general, in respect of one particular product, the Group will compare the gross profit margin achieved by the Group on the sale of these products in the same period of last year and the gross profit margin that can be achieved by the Group based on the results of price consultation with not less than two independent third party suppliers in the same region for the same product type and the same business model. 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 Natong 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 procure such products from the Natong Group.

Payment  
Arrangements:

Payment arrangements will be negotiated by the parties and stated in individual implementation agreements, but shall be the similar to the arrangement with other independent third parties.

Implementation  
Agreements:

Members of the Group and members of the Natong Group will enter into 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 2022 Procurement Framework Agreement and shall not contravene the provisions of the 2022 Procurement Framework Agreement.

## 2. Proposed Annual Caps for the Three Years Ending 31 December 2025

### *Historical figures*

Historical transaction amounts in relation to the procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products between the Group and the Natong Group are as follows:

*Unit: RMB million*

	<b>Year ended 31 December 2020</b>	<b>Year ended 31 December 2021</b>	<b>Nine months ended 30 September 2022</b>
<b>Transactions</b>			

Amounts paid by the Group to the Natong Group in respect of the procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products

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*Note:* Amounts paid by the Group to Natong Group in respect of the procurement of products for the nine months ended 30 September 2022 was less than the estimated amount for the year, mainly due to the fact that the pandemic control measures in the two major cities, namely Beijing and Shanghai, from January to September made considerable impact on the original medical devices business. It is estimated that the amount paid for the fourth quarter will record a considerable increase.

### *Proposed annual caps for the three years ending 31 December 2025*

The Board resolved that the annual caps for the continuing connected transactions contemplated under the 2022 Procurement Framework Agreement for the three years ending 31 December 2025 to be as follows:

Unit: RMB million

Transactions	Year ending 31 December 2023	Year ending 31 December 2024	Year ending 31 December 2025
Amounts paid by the Group to the Natong Group in respect of the procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products as well as masks and other pandemic prevention materials	1,210	1,440	1,620

***Basis of determination of the annual caps***

The annual caps for the continuing connected transactions contemplated under the 2022 Procurement Framework Agreement for the three years ending 31 December 2025 were mainly determined with reference to the historical transaction figures as listed above and after taking into consideration the following factors:

- (i) the Group continues to expand the scale of its member companies through mergers and acquisitions, optimize the business structure, and adhere to take the device business as one of its strategic priorities in the next three years. It is expected that the demand for medical device products by the customers of the Group and the number of future customers will continue to increase, and the scale of transactions between the Group and Natong Group will also expand accordingly;
- (ii) the Natong Group may continue to have greater category supply capacity and increase the supply quantity and varieties of medical device products through acquisition and other development plans, which will also lead to the continuous expansion of the scale of transactions between the Group and Natong Group;
- (iii) the recurrence and uncertainty of the COVID-19 pandemic will lead to an increase in the demand for pandemic prevention materials by the Group's end customers, and the Group's procurement of these products is also expected to increase;
- (iv) the "Volume-based Procurement" policy of medical device continues to be implemented in China. If the varieties of bid-winning products of Natong Group in the volume-based procurement further increase in the future, the number and the

varieties of medical device products supplied to the Group may increase accordingly, which may also lead to corresponding changes in the scale of transactions between the Group and Natong Group in respect to such bid-winning products;

- (v) the inclusion of a buffer for the estimated amount of procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products as well as masks and other pandemic prevention materials by the Group from the Natong Group under the 2022 Procurement Framework Agreement so as to accommodate any unexpected increase in the aforesaid transaction volume amount (as a result of any unexpected increase in market demand) or unexpected increase in the cost of supply during the period of the 2022 Procurement Framework Agreement.

### **3. Reasons for and Benefit of Entering into the 2022 Procurement Framework Agreement**

As a medical enterprise in China integrating R&D, production, marketing, and medical services, the Natong Group has rich experience and high-quality service systems in relation to the products under the 2022 Procurement Framework Agreement. In addition, Natong Group has won the bid for the entire product lines in the nationally organised and centralised volume-based procurement of high-value medical consumables during the past two years, and showed obvious advantages in winning the bid. It is expected that the market share of the Natong Group in respect of products under the 2022 Procurement Framework Agreement will be further expanded. Considering that the Group will continue to procure from the Natong Group, the Group and the Natong Group decided to enter into the 2022 Procurement Framework Agreement to regulate the Group's procurement of related products from the Natong Group.

The Directors are of the view that the 2022 Procurement Framework Agreement will enable the Group to (i) obtain a stable supply of related products from the Natong Group in the ordinary course of business, which will help the Group operate in a continuous and stable manner; and (ii) fully leverage the Natong Group's advantages to achieve better operating results.

None of the Directors of the Company 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 2022 Procurement Framework Agreement was entered into on normal commercial terms in the ordinary course of business of the Group, the terms and conditions therein as well as the annual caps for the three years ending 31 December 2025 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. MEASURES OF INTERNAL CONTROL

To ensure the Group's conformity with the above pricing policies in relation to the continuing connected transactions contemplated under the 2022 Procurement 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.

- (1) The departments of the Company and/or its subsidiaries responsible for the execution of the connected transactions (including but not limited to those responsible for legal, finance, operation, etc.) will perform the necessary internal review and approval procedures in advance to confirm whether the terms of the implementation agreements of continuing connected transactions are fair and reasonable and are in compliance with the 2022 Procurement Framework Agreement.
- (2) (i) the operation department of the Company is responsible for taking the lead in requesting the subsidiaries that having continuing connected transactions under the 2022 Procurement Framework Agreement to report the estimated amount of continuing connected transactions in the next quarter on a quarter basis, and the finance department is responsible for reviewing the quarterly budget; (ii) the finance department of the Company is responsible for taking the lead in continuously monitoring and collecting from subsidiaries at least quarterly the actual amount of continuing connected transactions; (iii) the office of the Board, the operation department and the finance department of the Company shall check the received actual amount of continuing connected transactions of subsidiaries for each quarter as soon as possible to jointly confirm the final actual amount; (iv) the continuing connected transaction management working group of the Company will hold regular meetings on the Group's continuing connected transactions on a quarterly basis, and hold temporary meetings as necessary.
- (3) (i) if (a) at the end of the first quarter of each year, the actual amount of any continuing connected transaction under the 2022 Procurement Framework Agreement amounts to or exceeds 40% of the cap of the current year; or (b) at the end of the second quarter of each year, the actual amount of any continuing connected transaction amounts to or exceeds 50% of the cap of the current year, the finance department shall issue an early warning, and then follow up on a monthly basis to collect the actual amount, and discuss with the secretary of the Board, the office of the Board and the operation department on the response plan; (ii) if the actual amount of any continuing connected transaction has amounted to 70% of the cap of the current year, the finance department shall immediately notify the secretary of the Board, the office of the Board and the operation department, and the office of the Board shall take the lead in organizing relevant departments to jointly formulate a response plan; and (iii) the operation department shall analyze and track the reasons for abnormal changes in a timely manner, and make an estimate of the subsequent growth of the continuing connected transactions; if the operation department expects that such business will increase or expand substantially in a short period of time and is likely to account for a significant portion of the annual cap of such continuing connected



transaction, the operation department shall issue an early warning in a timely manner, and discuss with the secretary of the Board, the office of the Board and the finance department on a response plan.

- (4) The auditors of the Company would conduct an annual review on the implementation of the pricing terms and annual caps of the non-exempt continuing connected transactions; The independent non-executive Directors of the Company would continue to review the non-exempt continuing connected transactions contemplated under the 2022 Procurement Framework Agreement to ensure they are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the 2022 Procurement Framework Agreement. When the independent non-executive Directors of the Company conduct such review, the Company would arrange the auditors to report to the independent non-executive Directors on its review of the continuing connected transactions.

The Directors consider that the above methods and procedures can ensure the continuing connected transactions contemplated under the 2022 Procurement Framework Agreement will be conducted on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements.

#### **IV. LISTING RULES IMPLICATIONS**

Beijing Natong holds 40% equity interest in CSIMC, a significant subsidiary of the Company. Natong Group Company is the holding company of Beijing Natong. Therefore, Natong Group Company is a connected person of the Company at the subsidiary level under the Listing Rules. Accordingly, the transactions under the 2022 Procurement Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.77 of the Listing Rules) exceed 1% but less than 5%, the transactions under the 2022 Procurement Framework Agreement shall be subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

#### **V. GENERAL INFORMATION OF THE PARTIES**

##### **The Company**

The Company is principally engaged in the distribution of pharmaceutical, medical devices and other medical healthcare products, operation of retail pharmacies, and production and sales of chemical reagents and laboratory supplies. The ultimate controlling shareholder of the Company is CNPGC, a state wholly-owned enterprise established in China. CNPGC is principally

engaged in the R&D of pharmaceutical products, manufacturing, logistics and distribution, retail chains, medical health, engineering technology, professional exhibition, international operation business, financial investment and other businesses.

### **Natong Group Company**

Natong Group Company is principally engaged in the R&D, production and sales of medical devices and medical services. Its ultimate beneficial owner is Mr. Zhao Yiwu.

## **VI. DEFINITIONS**

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

“30%-controlled company”	has the meaning ascribed to it under the Listing Rules
“Beijing Natong”	Beijing Natong Shichuang Investment Management Co., Ltd. (北京納通實創投資管理有限公司), a company incorporated in the PRC with limited liability
“Board”	the board of directors of the Company
“CNP GC”	China National Pharmaceutical Group Co., Ltd. (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
“Company”	Sinopharm Group Co. Ltd., (國藥控股股份有限公司), a joint stock company incorporated in the PRC with limited liability and whose H shares are listed and traded on the Stock Exchange
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“connected person”	has the meaning ascribed to it under the 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
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Natong Group Company”	Beijing Natong Technology Group Co., Ltd. (北京納通科技集團有限公司), a company incorporated in the PRC with limited liability
“Natong Group”	Natong Group Company, its subsidiaries and 30%-controlled companies
“2020 Procurement Framework Agreement”	the Procurement Framework Agreement entered into between the Company and Natong Group Company on 28 July 2020
“2022 Procurement Framework Agreement”	the Procurement Framework Agreement entered into between the Company and Natong Group Company on 26 October 2022
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the share(s) of the Company with a nominal value of RMB1.00 per share, including Domestic Share(s) and H Share(s)
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board  
**Sinopharm Group Co. Ltd.**  
**Yu Qingming**  
*Chairman*

Shanghai, the PRC  
26 October 2022

*As at the date of this notice, the executive directors of the Company are Mr. Yu Qingming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. Hu Jianwei, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong, Mr. Li Dongjiu 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.”.*