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国药集团
SINOPHARM

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

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

SUPPLEMENTAL ANNOUNCEMENT
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE NEW MASTER AGREEMENTS

Reference is made to the announcement dated 11 November 2022 (the “**Announcement**”) of China Traditional Chinese Medicine Holdings Co. Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) in relation to, among others, the renewal of continuing connected transactions in relation to the new master agreements. Unless the context otherwise requires, capitalised terms in this announcement shall have the same meanings as defined in the Announcement.

This announcement is to provide further information on the pricing policies and internal controls procedures of the Purchases as well as the basis of determination of the Proposed Purchase Caps.

PRICING POLICIES OF THE PURCHASES

As disclosed in the Announcement, the terms of the Purchases shall adhere to the principles that (i) the terms of the Purchases (including prices, discounts, credit period and payment terms) shall be fair and reasonable and on normal commercial terms, and no less favourable to the Group than those available to the Group from independent third parties; and (ii) the prices of the Materials shall be determined based on the prevailing market prices in accordance to the terms set out in the New Master Purchase Agreement.

The prevailing market prices will be determined by reference to (i) the prices of similar materials in the TCM wholesale markets in the PRC; and (ii) the prices of similar products purchased by the Group from other independent third party suppliers.

INTERNAL CONTROLS PROCEDURES FOR THE PURCHASES

In accordance with the Group's procurement policy (applicable to purchases from the CNPGC Group and independent third parties), in order to be qualified as an approved supplier, the Company shall evaluate the supplier on various aspects, including but not limited to production capacity, financial strengths, qualifications and quality assurance. The procurement department of relevant members of the Group shall obtain quotations from at least three suppliers which are in the approved suppliers list for each purchase. Quotations received shall then be assessed by the Company based on a number of factors, such as price, quality, payment terms, delivery terms and length of the business relationship and the supplier with the best overall quotation will be selected. For specific types of the Materials (i.e., the Materials which required high-quality standards and/or with low production rate), the Company may only be able to obtain less than three quotations from the approved suppliers list. In such case, the Company will continue to compare the quotations offered by the CNPGC Group and the independent third party (if any). Otherwise, the Company shall negotiate directly with those suppliers, on an arm's length basis, based on the above-mentioned factors.

In addition, to ensure that the Purchases will be entered into in accordance with the requirements of Chapter 14A of the Listing Rules, the Company's strategy and operations management department will collect data of the Purchases to ensure that the Proposed Purchase Caps will not be exceeded; the Group will engage the auditors to conduct an annual review of the Purchases to opine on whether the Proposed Purchase Caps have been exceeded; and the independent non-executive Directors will review the implementation of the Purchases annually.

Accordingly, the Board is of the view that (i) the Purchases will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders; and (ii) the above internal control procedures are adequate to safeguard the interest of the Company and the Independent Shareholders in the transactions contemplated under the New Master Purchase Agreement.

BASIS OF DETERMINATION OF THE PROPOSED PURCHASE CAPS

As disclosed in the Announcement, the Proposed Purchase Caps were determined mainly by reference to (i) the historical quantity of the Materials purchased from the CNPGC Group; (ii) the expected increase in the use of the Materials to cater for the increasing demand of the Group's products; and (iii) the purchase of Materials from members of the CNPGC Group which were independent third parties at the timing of the entering into of the Existing Master Purchase Agreement but were subsequently acquired by and consolidated into the CNPGC Group.

Pursuant to the "Outline of the Strategic Plan for the Development of Traditional Chinese Medicine (2016-2030)" (中醫藥發展戰略規劃綱要 (2016-2030年)) as published by the State Council of the PRC and the "National Production Bases of Authentic Chinese Medicinal Materials Construction Plan (2018-2025)" (全國道地藥材生產基地建設規劃 (2018-2025年)) published by National Medical Products Administration, National Administration of Traditional Chinese Medicine and the Ministry of Agriculture and Rural Affairs of the PRC, the PRC government promotes the standardised planting and management of the Chinese medicinal herbs. In response to the aforesaid guidance documents

from the PRC government, as disclosed in the Company's annual report for the year ended 31 December 2021, the Group took Chinese medicinal herb resources as the starting point for the construction of comprehensive industry chain of TCM healthcare, aiming to establish a quality management and traceability system for the whole process of planting, production and circulation of Chinese medicinal herbs in order to ensure that the Group's midstream and downstream production enterprises have the competitive strength of high-quality source medicinal herbs. The Group gives priority to the procurement of Chinese medicinal herbs sourced from bases that comply with standardised planting and management, and the CNPGC Group has production bases of authentic Chinese medicinal herbs in various locations in the PRC. The Directors consider the Purchases can ensure the Group have high-quality raw materials for manufacturing pharmaceutical products. Therefore, it is expected that the transactions between the Company and CNPGC Group and/or its associates will be more frequent in the coming few years.

The Company has noted an increasing trend in the price of TCM materials in recent years. For instance, according to 中藥材天地網 (<https://www.zyctd.com>), the information monitoring and forewarning platform of Chinese medicinal materials recognised by the Ministry of Industry and Information Technology of the PRC, the Composite 200 Index of Chinese Medicinal Herbs* (中藥材綜合200指數) increased from 2,273 points as at 1 January 2020 to approximately 2,744 points as at 30 September 2022, representing an increase of approximately 20.7%. Composite 200 Index of Chinese Medicinal Herbs is calculated through a weighted comprehensive calculation of the market price of the main 200 kinds of Chinese medicinal herbs in the PRC each day, and it indicates that the overall price of Chinese medicinal materials increased significant during the period. Accordingly, the Company also took into account the expected increase in the price of the Materials when determining the Proposed Purchase Caps.

Having considered the above, the Directors are of the view that the Proposed Purchase Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Save as disclosed above, all other information set out in the Announcement remains unchanged.

By order of the Board
China Traditional Chinese Medicine Holdings Co. Limited
CHEN Yinglong
Chairman

Hong Kong, 20 December 2022

As at the date of this announcement, the Board comprises twelve Directors, of which Mr. CHEN Yinglong, Mr. CHENG Xueren and Mr. YANG Wenming are executive Directors; Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan, Mr. MENG Qingxin and Mr. KUI Kaipin are non-executive Directors; and Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong are independent non-executive Directors.

* For identification purposes only