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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about any of the contents of this circular, you should obtain independent professional advice.

If you have sold or transferred all your H shares in Sinopharm Group Co. Ltd., you should at once hand this circular together with the form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)

**(1) CONTINUING CONNECTED TRANSACTIONS: 2023 PROCUREMENT  
FRAMEWORK AGREEMENT AND 2023 SALES FRAMEWORK AGREEMENT;  
(2) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED  
TRANSACTION: 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT;  
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATIONS; AND  
(4) NOTICE OF EGM**

**Independent Financial Adviser to the Independent Board Committee  
And the Independent Shareholders**



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A letter from the Board is set out on pages 6 to 38 of this circular. A notice convening the EGM to be held at Meeting Room 1401, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the PRC, at 9:00 a.m. on Wednesday, 20 December 2023, is being dispatched to the Shareholders together with this circular.

Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the appropriate form of proxy in accordance with the instructions printed thereon. The form of proxy must be signed by you or your attorney duly authorised in writing or, in case of a legal person, must either be executed under its seal or under the hand of its director or other attorney duly authorised to sign the same. If the form of proxy is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other document of authorisation, must be notarially certified.

In the case of joint holders of Shares, only the holder whose name stands first in the register of members of the Company shall alone be entitled to vote at the EGM either in person or by proxy in respect of such Shares.

For holders of H shares of the Company, please return the proxy form together with any documents of authority to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM or any adjournment thereof. For holders of Domestic Shares, please return the proxy form together with any documents of authority to the Board Office of the Company in the PRC at Room 1210, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the PRC as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof should you so wish.

5 December 2023

\* 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.".

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## DEFINITIONS

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

“2017 Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and the Finance Company on 27 October 2017 in relation to the provision of financial services by the Finance Company to the Group on a non-exclusive basis
“2020 Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and the Finance Company on 22 October 2020 or 18 December 2020, as the case may be, in relation to the provision of financial services by the Finance Company to the Group on a non-exclusive basis
“2020 Procurement Framework Agreement”	the procurement framework agreement entered into between the Company and CNPGC on 22 October 2020 in relation to the procurement of products such as the pharmaceutical products, personal care supplies, medical devices and health products by the Group from the CNPGC Group on a non-exclusive basis
“2020 Sales Framework Agreement”	the sales framework agreement entered into between the Company and CNPGC on 22 October 2020 in relation to the sales of products such as the pharmaceutical products, personal care supplies, medical devices, chemical reagents, laboratory supplies and health products by the Group to the CNPGC Group on a non-exclusive basis
“2023 Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and the Finance Company on 9 November 2023 in relation to the provision of financial services by the Finance Company to the Group on a non-exclusive basis
“2023 Procurement Framework Agreement”	the procurement framework agreement entered into between the Company and CNPGC on 9 November 2023 in relation to the procurement of products such as the pharmaceutical products, personal care supplies, medical devices and health products by the Group from the CNPGC Group on a non-exclusive basis
“2023 Sales Framework Agreement”	the sales framework agreement entered into between the Company and CNPGC on 9 November 2023 in relation to the sales of products such as the pharmaceutical products, personal care supplies, medical devices, chemical reagents, laboratory supplies and health products by the Group to the CNPGC Group on a non-exclusive basis
“Articles of Association”	the articles of association of the Company

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## DEFINITIONS

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“applicable percentage ratio(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“associates”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of directors of the Company
“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 associates (excluding the Group) or (where the context requires) any of them
“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
“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
“Deposit Services”	deposits services provided by the Finance Company to the Group under the 2017 Financial Services Framework Agreement, the 2020 Financial Services Framework Agreement or the 2023 Financial Services Framework Agreement, as the case may be
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are subscribed for and fully paid up in RMB by PRC nationals and/or PRC incorporated enterprises
“EGM”	the extraordinary general meeting of the Company to be convened at Meeting Room 1401, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the PRC at 9:00 a.m. on Wednesday, 20 December 2023

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## DEFINITIONS

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“financial services to be carried out”	other financial services to be carried out by the Finance Company in the future upon obtaining approval by the NAFR and to be provided to the 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
“former CBIRC”	the former China Banking and Insurance Regulatory Commission, currently known as the NAFR
“Fosun High Technology”	Shanghai Fosun High Technology (Group) Co., Ltd. (上海復星高科技(集團)有限公司), a company incorporated in the PRC with limited liability
“Fosun Holdings”	Fosun Holdings Limited (復星控股有限公司), a company incorporated in the PRC with limited liability
“Fosun International”	Fosun International Limited (復星國際有限公司), a joint stock company incorporated in the PRC with limited liability, whose H shares are listed and traded on the Hong Kong Stock Exchange
“Fosun International Holdings”	Fosun International Holdings Ltd., a company incorporated in the British Virgin Islands with limited liability
“Fosun Pharma”	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司), a joint stock company established in the PRC, the H shares and A shares of which are listed and traded on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
“Group”	the Company and its subsidiaries or (where the context requires) any of them
“H Share(s)”	overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which is/are listed and traded on the Hong Kong Stock Exchange
“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, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Independent Board Committee”	an independent board committee comprising all of the independent non-executive Directors, who have no material interests in the 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the 2023 Financial Services Framework Agreement, namely Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung, Mr. Yu Weifeng and Mr. Shi Shenghao
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to (i) the terms of, the continuing connected transactions contemplated under and the proposed annual caps for the 2023 Procurement Framework Agreement and the 2023 Sales Framework Agreement; and (ii) the terms of, the Deposit Services contemplated under and the proposed maximum daily balances of the Deposit Services under the 2023 Financial Services Framework Agreement
“Independent Shareholders”	Shareholders other than CNPGC and its associates
“Latest Practicable Date”	1 December 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“NAFR”	the National Administration of Financial Regulation of China
“Other Financial Services”	bill discounting and acceptance services, finance lease services and settlement services provided by the Finance Company to the Group under the 2020 Financial Services Framework Agreement or the 2023 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 circular only 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

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## DEFINITIONS

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“Sinopharm Investment”	Sinopharm Industrial Investment Co., Ltd. (國藥產業投資有限公司), a company incorporated in the PRC with limited liability
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Supervisor(s)”	the supervisor(s) of the Company

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LETTER FROM THE BOARD

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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)**

***Members of the Board:***

***Executive Directors:***

Mr. Yu Qingming (*Chariman*)  
Mr. Liu Yong

***Non-executive Directors:***

Mr. Chen Qiyu  
Mr. Hu Jianwei  
Mr. Deng Jindong  
Mr. Wang Kan  
Mr. Wang Peng  
Mr. Wen Deyong  
Mr. Li Dongjiu  
Ms. Feng Rongli

***Independent non-executive Directors:***

Mr. Chen Fangruo  
Mr. Li Peiyu  
Mr. Wu Tak Lung  
Mr. Yu Weifeng  
Mr. Shi Shenghao

***Registered Office in the PRC:***

1st Floor, No. 385  
East Longhua Road  
Huangpu District  
Shanghai 200023, the PRC

***Principal Place of Business in Hong Kong:***

Room 1601,  
Emperor Group Center,  
288 Hennessy Road, Wanchai,  
Hong Kong

5 December 2023

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS: 2023 PROCUREMENT FRAMEWORK AGREEMENT AND 2023 SALES FRAMEWORK AGREEMENT;  
(2) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTION: 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT;  
AND  
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATIONS**

\* *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."*

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## LETTER FROM THE BOARD

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### (I) INTRODUCTION

Reference is made to the announcement of the Company dated 9 November 2023 in relation to the renewal of certain continuing connected transactions of the Company. On 9 November 2023, (i) the Company and CNPGC entered into the 2023 Procurement Framework Agreement and the 2023 Sales Framework Agreement, and set the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2026; and (ii) the Company and the Finance Company entered into the 2023 Financial Services Framework Agreement and set the annual caps for the continuing connected transactions contemplated thereunder, including the maximum daily balances of the Deposit Services, for the three years ending 31 December 2026. Pursuant to the Hong Kong Listing Rules, the 2023 Procurement Framework Agreement and the 2023 Sales Framework Agreement and the continuing connected transactions contemplated thereunder and the proposed annual caps thereof, and the 2023 Financial Services Framework Agreement and the Deposit Services contemplated thereunder and the proposed maximum daily balances of the Deposit Services thereof are subject to the approval by the Independent Shareholders.

Reference is made to the announcement of the Company dated 27 October 2023 in relation to the proposed amendments to the Articles of Association.

The purpose of this circular is to provide you with, among other things, (i) detailed information regarding the continuing connected transactions contemplated under the 2023 Procurement Framework Agreement and the proposed annual caps thereof; (ii) detailed information regarding the continuing connected transactions contemplated under the 2023 Sales Framework Agreement and the proposed annual caps thereof; (iii) detailed information regarding the Deposit Services contemplated under the 2023 Financial Services Framework Agreement and the proposed maximum daily balances of the Deposit Services thereof; (iv) the recommendation from the Independent Board Committee to the Independent Shareholders; (v) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (vi) details of the proposed amendments to the Articles of Association; and (vii) a notice convening the EGM.

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## LETTER FROM THE BOARD

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### (II) CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTION

#### I. 2023 PROCUREMENT FRAMEWORK AGREEMENT

##### 1. *2023 Procurement Framework Agreement*

<b>Date:</b>	9 November 2023
<b>Parties:</b>	(i) the Company  (ii) CNPGC
<b>Term of the Agreement:</b>	The term will be three years from 1 January 2024 to 31 December 2026, subject to the approval by the Independent Shareholders. Upon its expiry, the agreement will, subject to compliance with the relevant laws and regulations and the Hong Kong Listing Rules, be extended or renewed with the consent of the parties.
<b>Nature of the Transactions:</b>	Pursuant to the 2023 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.
<b>Principle of the Transactions:</b>	<p>The transactions under the 2023 Procurement Framework Agreement shall follow the principle of fairness, and the terms and conditions of the transactions, including but not limited to the price, shall be conducted on normal commercial terms or better and the quality and conditions of the same or similar products shall be no less favorable than those sold or offered by independent third parties to the Group or by the CNPGC Group to independent third parties.</p> <p>The 2023 Procurement Framework Agreement is non-exclusive, and the Group is entitled to purchase such products from any other third parties.</p> <p>The Group may, from time to time, enter into specific agreements with the CNPGC Group to specify the details such as product requirements, scope of services, delivery term, transaction amount and other specifications, provided that the principles and terms in the 2023 Procurement Framework Agreement must be followed.</p>

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## LETTER FROM THE BOARD

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### **Pricing Policy:**

The price of pharmaceutical products and medical devices to be purchased by the Group from the CNPGC Group under the 2023 Procurement Framework Agreement will be determined by the parties through arm's length negotiation after mainly taking into account (i) the final price of the relevant product sold to hospitals, pharmacies and other institutions (for products procured through national centralised procurement or public bidding process by local governments, where the final price refers to the winning tender price published on the public official websites of the local governments, such as: the website of Shanghai Sunshine Medical Procurement ALL-IN-ONE (上海陽光醫藥採購網), the website of Beijing Municipal Medical Insurance Bureau Medicine Sunshine Purchasing (北京市醫療保障局陽光採購網站), the website of Tianjin Medicine Purchasing Center (天津市醫藥採購中心網站), the website of Chongqing Drug Delivery (重慶藥交網); for products that are not procured through public bidding process, the final price refers to the price that the manufacturer files with the government, such as price of medical insurance drug, or the hospital's procurement price from the distributor which is determined according to the agreement between the manufacturer and the hospital, or the manufacturer's proposed terminal sales price for relevant products in the corresponding channel (such as hospitals and pharmacies)), (ii) the distribution costs of the Group; and (iii) the profit level of the Group, where such profit level refers to the gross profit margin of the Group's sales to downstream customers after deducting the procurement cost from the CNPGC Group under the 2023 Procurement Framework Agreement and distribution cost and should be comparable to the profit level of the Group that would be achieved if the relevant or similar products to be sold were purchased from independent third parties under the same or similar business model.

The price of products such as personal care supplies and health products to be purchased by the Group from the CNPGC Group under the 2023 Procurement Framework Agreement will be determined by the parties through arm's length negotiation, having mainly taken into account the proposed terminal sales price provided by the CNPGC Group for the relevant products in the corresponding channel (such as hospitals and pharmacies), the distribution costs of the Group, and the profit level of the Group on relevant products.

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## LETTER FROM THE BOARD

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After taking into consideration all the relevant factors (including procurement prices, distribution costs, the above-mentioned profit level and factors stated in “V. Measures of internal control – 1. 2023 Procurement Framework Agreement and 2023 Sales Framework Agreement”, etc.) and going through all the necessary internal review and approval procedures, if the Group considers that the procurement price offered by the CNPGC Group is not in the best interest of the Company and its Shareholders, or is not fair and reasonable, it is entitled not to purchase such products from the CNPGC Group.

### 2. Annual Caps

#### *Historical figures*

Historical transaction amounts between the Group and the CNPGC Group and the historical annual caps and utilisation rates under the 2020 Procurement Framework Agreement are as follows:

	<b>Year ended 31 December 2021 (RMB)</b>	<b>Year ended 31 December 2022 (RMB)</b>	<b>Nine months ended 30 September 2023 (RMB)</b>
Amounts paid by the Group to the CNPGC Group under the 2020 Procurement Framework Agreement	7,969 million	8,093 million	6,855 million
	<b>2021 (RMB)</b>	<b>2022 (RMB)</b>	<b>2023 (RMB)</b>
	<b>Year ended 31 December</b>		
Historical annual caps <sup>Note</sup>	7,000 million	10,600 million	12,200 million
Utilisation rates	113.84%	76.35%	56.19%

*Note:* As disclosed in the Company’s announcement dated 18 March 2022, the Board noted that the amounts paid by the Group to the CNPGC Group under the 2020 Procurement Framework Agreement for the year ended 31 December 2021 (the “**2021 Actual Procurement Transaction Amounts**”) exceeded the respective original annual cap of RMB7,000 million. Taking into account the 2021 Actual Procurement Transaction Amounts and the business demands of the Group for the years of 2022 and 2023, the Board expected that the original annual caps for the years of 2022 and 2023 (being RMB8,000 million and RMB9,000 million, respectively) would not be sufficient to meet the Group’s needs for business development. Therefore, the Board

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## LETTER FROM THE BOARD

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proposed on 18 March 2022 and the extraordinary general meeting of the Company passed the resolutions on 20 May 2022 to ratify the 2021 Actual Procurement Transaction Amounts and revise the annual caps for the years of 2022 and 2023 for the transactions contemplated under the 2020 Procurement Framework Agreement.

*Proposed annual caps for the three years ending 31 December 2026*

The Directors propose the annual caps for the continuing connected transactions contemplated under the 2023 Procurement Framework Agreement for the three years ending 31 December 2026 to be as follows:

	Year ending 31 December		
	2024 (RMB)	2025 (RMB)	2026 (RMB)
Proposed annual caps for the 2023 Procurement Framework Agreement	12,500 million	14,900 million	17,700 million

*Basis of determination of the annual caps*

The above proposed annual caps for the continuing connected transactions contemplated under the 2023 Procurement Framework Agreement were calculated after taking into account the following factors, and based on (1) the estimated transaction amount for 2023 estimated from the average proportion of historical transaction amounts in the first and second half of the year; (2) compound annual growth rate calculated based on the historical transaction amounts for the six years from 2017 to 2022; and (3) a buffer of 5%.

- (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 demand for pharmaceutical products, personal care supplies, 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 and medical device distribution business over the next three years due to the Group's seizing of market share and optimising of network layout with the market concentration of the pharmaceutical and medical device distribution industry continuously increasing;
  - (b) the expected continuous increase of the scale of medical device business and retail business operated by the Group in the next three years as a result of the Group's continuous strategic focusing on the medical device segment and retail segment; and

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## LETTER FROM THE BOARD

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- (c) the increase in sales volume of the above products through various terminal medical institutions and retail channels brought by the further expansion of sales network of various business segments benefiting from the Group's own business expansion and the continuous exploration and increase of innovation of services;
- (ii) With the aging of China's population, the increasing demand for health and medical services of the people, and the further promotion and deepening of China's medical and health system reform by the Chinese 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 the compound growth rate of China's pharmaceutical market will reach around 4% in the next three years;
- (iii) Considering the incremental effect related to the pandemic in 2021 and 2022 should be excluded, the estimation of proposed annual caps for the next three years used the estimated transaction amount for 2023 as base value. The estimated transaction amount for 2023 is estimated based on the average proportion of transaction amounts in the first and second half of the year for the six years from 2017 to 2022;
- (iv) Taking into account the aforementioned growth factors for procurement demand and considering it would be of higher reference value to use historical transaction amounts and their growth for a longer period to determine the trend of future transaction amounts, the compound growth rate of the transaction amounts for the six years from 2017 to 2022 is adopted, and such compound growth rate is used as the determination basis for estimating the growth rate of procurement transaction amounts in the next three years. The compound growth rate calculated based on the historical transaction amounts for the six years from 2017 to 2022 is approximately 19%; and
- (v) Applying a buffer of 5% to cater for any unanticipated growth of the above-mentioned transaction amounts during the term of the 2023 Procurement Framework Agreement.

### ***3. Reasons for and Benefit of Entering into the 2023 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 sound financial condition, and has developed extensive experience and good service systems in respect of the products under the 2023 Procurement Framework Agreement. Products procured by the Group from the CNPGC Group under the 2023 Procurement Framework Agreement may overlap to a certain extent with the products sold by the Group to the CNPGC Group under the 2023 Sales Framework Agreement. The products currently procured by the Group from CNPGC Group are mainly chemical

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## LETTER FROM THE BOARD

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pharmaceuticals, biopharmaceuticals, modern Chinese medicine and other related products, which are mainly distributed to medical institutions, retail pharmacies and other institutions within or outside of the CNPGC Group. According to the pharmaceutical distribution model in the PRC, the specific types and scale of pharmaceutical products procured by the Group from CNPGC Group are mostly specified directly by the Group's customers such as medical institutions and retail pharmacies. To further explain, the followings are two common circumstances: (i) in general, the Group would have obtained relevant sales requirements before the Group procures from the CNPGC Group; and (ii) in certain cases, the CNPGC Group (as suppliers) would have negotiated and confirmed details of the products to be sold to relevant customers, and the supplier and/or the customer may designate the Group to be the distributor. The Group mainly acts as the pharmaceutical product distributor between the CNPGC Group (as suppliers) and medical institutions, retail pharmacies and other institutions (as customers) within and outside of the CNPGC Group and provide value-added distribution services as the Group is (i) equipped with sufficient capital resources; (ii) able to provide nationwide coverage of supply chain, logistics network and retail network; (iii) qualified to distribute pharmaceutical products; and (iv) able to provide valuable marketing services. Also, the Group has established stable business relationship with medical institutions, retail pharmacies and other institutions outside of the CNPGC Group.

The Directors are of the view that the 2023 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 satisfying the expected increase in customers' demand; (ii) the CNPGC Group to provide stable and high-quality services for the Group because it is familiar with the business and operational needs of the Group by virtue of the long-term cooperation with the Group in previous years; and (iii) the Group to fully leverage on advantages of the CNPGC Group to achieve better operating performance.

## II. 2023 SALES FRAMEWORK AGREEMENT

### 1. *2023 Sales Framework Agreement*

**Date:** 9 November 2023

**Parties:** (i) the Company  
(ii) CNPGC

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## LETTER FROM THE BOARD

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**Term of the Agreement:** The term will be three years from 1 January 2024 to 31 December 2026, subject to the approval by the Independent Shareholders. Upon its expiry, the agreement will, subject to compliance with the relevant laws and regulations and the Hong Kong Listing Rules, be extended or renewed with the consent of the parties.

**Nature of the Transactions:** Pursuant to the 2023 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.

**Principle of the Transactions:** The transactions under the 2023 Sales Framework Agreement shall follow the principle of fairness, and the terms and conditions of the transactions, including but not limited to the price, shall be conducted on normal commercial terms or better and the quality and conditions of the same or similar products shall be no less favourable than those purchased by independent third parties from the Group or by the CNPGC Group from independent third parties.

The 2023 Sales Framework Agreement is non-exclusive, and the Group is entitled to sell relevant products to any other third parties.

The Group may, from time to time, enter into specific agreement with the CNPGC Group to specify the details such as product requirements, scope of services, delivery term, transaction amount and other specifications, provided that the principles and terms in the 2023 Sales Framework Agreement must be followed.

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## LETTER FROM THE BOARD

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**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 2023 Sales Framework Agreement will be determined on an arm's length basis between the parties and after going through all necessary internal review and approval procedures, having mainly taken into account (i) the procurement costs (including products costs, cost of capital, logistic cost and others) for the relevant products purchased by the Group; and (ii) the profit level of the Group, where such profit level refers to the gross profit margin of the Group's sales to the CNPGC Group under the 2023 Sales Framework Agreement after deducting the procurement cost from upstream suppliers and distribution cost and should be comparable to the profit level of the Group that would be achieved if the relevant or similar products were sold to independent third parties under the same or similar business model.

**2. Annual Caps**

*Historical figures*

Historical transaction amounts between the Group and the CNPGC Group and the historical annual caps and utilisation rates under the 2020 Sales Framework Agreement are as follows:

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## LETTER FROM THE BOARD

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	Year ended 31 December 2021 (RMB)	Year ended 31 December 2022 (RMB)	Nine months ended 30 September 2023 (RMB)
Amounts paid by the CNPGC Group to the Group under the 2020 Sales Framework Agreement	2,626 million	2,470 million	1,613 million <sup>(Note 1)</sup>

	Year ended 31 December		
	2021 (RMB)	2022 (RMB)	2023 (RMB)
Historical annual caps <sup>Note 2</sup>	1,800 million	4,200 million	5,500 million
Utilisation rates	145.89%	58.81%	29.33%

*Notes:*

1. Based on the historical transaction amounts paid by the CNPGC Group to the Group, the utilisation rate of the annual cap for the year ending 31 December 2023 is expected to be relatively low, mainly because the sales volume of pandemic prevention consumables and other products of the Group to the CNPGC Group in 2023 was relatively low as compared with that in 2021 and 2022, which was mainly attributable to the gradual disappearance of incremental factors related to pandemic prevention along with the gradual release of pandemic prevention and control policy.
  
2. As disclosed in the Company's announcement dated 18 March 2022, the Board noted that the amounts paid by the CNPGC Group to the Group under the 2020 Sales Framework Agreement for the year ended 31 December 2021 (the "**2021 Actual Sales Transaction Amounts**") exceeded the respective original annual cap of RMB1,800 million. Taking into account the 2021 Actual Sales Transaction Amounts and the business demands of the Group for the years of 2022 and 2023, the Board expected that the original annual caps for the years of 2022 and 2023 (being RMB2,000 million and RMB2,150 million, respectively) would not be sufficient to meet the Group's needs for business development. Therefore, the Board proposed on 18 March 2022 and the extraordinary general meeting of the Company passed the resolutions on 20 May 2022 to ratify the 2021 Actual Sales Transaction Amounts and revise the annual caps for the years of 2022 and 2023 for the transactions contemplated under the 2020 Sales Framework Agreement.

*Proposed Annual caps for the three years ending 31 December 2026*

The Directors propose the annual caps for the continuing connected transactions contemplated under the 2023 Sales Framework Agreement for the three years ending 31 December 2026 to be as follows:

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	Year ending 31 December		
	2024 (RMB)	2025 (RMB)	2026 (RMB)
Proposed annual caps for the 2023 Sales Framework Agreement	3,200 million	4,000 million	4,900 million

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

The above proposed annual caps for the continuing connected transactions contemplated under the 2023 Sales Framework Agreement were calculated after taking into account the following factors, and based on (1) the estimated transaction amount for 2023 estimated from the average proportion of historical transaction amounts in the first and second half of the year; (2) compound annual growth rate calculated based on the historical transaction amounts for the six years from 2017 to 2022; and (3) a buffer of 5%.

- (i) Each of the CNPGC Group and the Group will continue to expand its network and business by way of acquisitions and mergers in the next three years, and it is expected that 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 will increase;
- (ii) With the aging of China's population, the increasing demand for health and medical services of the people, and the further promotion and deepening of China's medical and health system reform by the Chinese government, it is expected that the size of China's pharmaceutical market will also continue to grow in the next three years. The growth of such industries will also lead to an increase in the CNPGC Group's procurement demand from the Group;
- (iii) Considering the incremental effect related to the pandemic in 2021 and 2022 should be excluded, the estimation of proposed annual caps for the next three years used the estimated transaction amount for 2023 as base value. The estimated transaction amount for 2023 is estimated based on the average proportion of transaction amounts in the first and second half of the year for the six years from 2017 to 2022;
- (iv) Taking into account the aforementioned growth factors for sales demand and considering it would be of higher reference value to use historical transaction amounts and their growth for a longer period to determine the trend of future transaction amounts, the compound growth rate of the transaction amounts for the six years from 2017 to 2022 is adopted, and such compound growth rate is used as the determination basis for estimating the growth rate of sales transaction

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amounts in the next three years. The compound growth rate calculated based on the historical transaction amounts for the six years from 2017 to 2022 is approximately 23%; and

- (v) Applying a buffer of 5% to cater for any unanticipated growth of the above-mentioned transaction amounts during the term of the 2023 Sales Framework Agreement.

### 3. *Reasons for and Benefit of Entering into the 2023 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 Group has extensive experience and good reputation in pharmaceutical sector, and the cooperation between the CNPGC Group and the Group is commercially reasonable and in their best interests. The products currently sold by the Group to CNPGC Group are mainly pharmaceutical products such as chemical pharmaceuticals, biopharmaceuticals and modern Chinese medicine, health products, medical devices, chemical reagents, auxiliary materials, laboratory supplies. Products sold by the Group to the CNPGC Group under the 2023 Sales Framework Agreement may overlap to a certain extent with the products procured by the Group from the CNPGC Group under the 2023 Procurement Framework Agreement. The products are mainly sold to medical institutions, medical service enterprises and pharmaceutical manufacturing enterprises of the CNPGC Group and may be procured from the CNPGC Group or third party suppliers. The Group mainly acts as the pharmaceutical product and medical device distributor between suppliers within and outside of the CNPGC Group and medical institutions and other enterprises of the CNPGC Group (as customers) and provide value-added distribution services as the Group is (i) equipped with sufficient capital resources; (ii) able to provide nationwide coverage of supply chain and logistics network; (iii) qualified to distribute pharmaceutical products and medical devices; and (iv) able to provide professional services (including medical services, supply chain management services and repair and maintenance services, etc.).

The Directors are of the view that the 2023 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; (ii) the Group to increase the sales volume of relevant products by actively expanding the CNPGC Group as the target customer group and the possible further introduction of the Group's products to other customers by the CNPGC Group; and (iii) the Group to fully leverage on advantages of the CNPGC Group to achieve better operating performance.

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## LETTER FROM THE BOARD

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### III. 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT

#### 1. 2023 Financial Services Framework Agreement

- Date:** 9 November 2023
- Parties:**
- (i) the Company
  - (ii) the Finance Company
- Term of the Agreement:** The term will be three years from 1 January 2024 to 31 December 2026, subject to the approval by the Independent Shareholders. Upon its expiry, the agreement will, subject to compliance with the relevant laws and regulations and the Hong Kong Listing Rules, be extended or renewed with the consent of the parties.
- Nature of the Transactions:** Pursuant to the 2023 Financial Services Framework Agreement, the Finance Company agrees to provide the following financial services:
- (i) deposit services;
  - (ii) loan and entrustment loan services;
  - (iii) bill discounting, bill acceptance, non-financing letter of guarantee and settlement services; and
  - (iv) other business as may be carried on by the Finance Company as approved by the NAFR.
- Principle of the Transactions:** All transactions under the 2023 Financial Services Framework Agreement shall be conducted on normal commercial terms or better. The Finance Company undertakes to provide financial services on conditions no less favorable than those offered to other members of the CNPGC Group for the same type of financial services and no less favorable than those available to the Group from the then-current commercial banks or other financial institutions for the same type of financial services.

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The 2023 Financial Services Framework Agreement is non-exclusive, and the Group is entitled to independently choose the financial institution to provide financial services and independently determine the financial institution to provide deposit and/or loan services and the deposit and/or loan amounts according to its business needs.

The Group may, from time to time, enter into specific agreements with the Finance Company, provided that the principles and pricing policy in the 2023 Financial Services Framework Agreement must be followed.

### **Pricing Policy:**

Pursuant to the 2023 Financial Services Framework Agreement, the service price between the Group and the Finance Company will be determined on the following basis:

#### **Deposit Services**

In determining the interest rates for the deposits to be placed by the Group with the Finance Company, the Group shall obtain the quotation on interest rates from the Finance Company, and make reference to the interest rates of the same type of deposits quoted by not less than three major commercial banks in the PRC (the “**Reference Deposit Rates**”). The interest rate applicable to the Group for its deposits with the Finance Company shall, subject to compliance with requirements on interest rates prescribed by the PBOC for such type of deposits, be the higher of (i) the maximum Reference Deposit Rates; and (ii) the interest rates offered by the Finance Company.

#### **Loan services**

The terms of loans provided to the Group by the Finance Company shall be no less favorable than the terms of the same type of loans offered to the Group by independent third party commercial banks which have existing cooperative relationships with the Group. In determining the applicable interest rates for loans to be granted to the Group by the Finance Company, the

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Group shall obtain the quotation on interest rates from the Finance Company, and make reference to the interest rates of the same type of loans quoted by not less than three major commercial banks in the PRC (the “**Reference Loan Rates**”). The interest rate applicable to the Group for its loans to be granted by the Finance Company shall be the lower of: (i) the lowest Reference Loan Rate; and (ii) the interest rate offered by the Finance Company.

Subject to compliance with relevant laws, regulations and regulatory requirements, the Finance Company will provide the loan services on normal commercial terms or better and such loans will not be secured by the assets of the Group.

### **Other Financial Services and financial services to be carried out**

The fees charged for Other Financial Services to be provided by the Finance Company to the Group shall comply with the standard rates as promulgated by the PBOC or the NAFR, if applicable. The terms of Other Financial Services provided to the Group by the Finance Company shall be no less favorable than the terms of the same type of Other Financial Services provided by independent third party commercial banks which have existing cooperative relationships with the Group. In determining the applicable fees for Other Financial Services to be charged by the Finance Company from Group, the Group shall obtain the fee quotation from the Finance Company, and make reference to the fees for the same type of financial services quoted by not less than three major commercial banks in the PRC (the “**Reference Service Fees**”). The applicable fees for Other Finance Services to be offered by the Finance Company to the Group shall be the lower of: (i) the lowest Reference Service Fee; and (ii) the fees charged by the Finance Company.

The settlement services provided by the Finance Company to the Group will be free of charge.

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### 2. Annual Caps

#### *Historical figures*

Historical maximum daily balances (including accrued interest) of the Deposit Services and the historical annual caps and utilisation rates under the 2020 Financial Services Framework Agreement are as follows:

	<b>Year ended 31 December 2021 (RMB)</b>	<b>Year ended 31 December 2022 (RMB)</b>	<b>Nine months ended 30 September 2023 (RMB)</b>
Maximum daily balances (including accrued interest) of the Deposit Services under the 2020 Financial Services Framework Agreement	2,419 million	2,410 million	2,410 million
	<b>2021 (RMB)</b>	<b>2022 (RMB)</b>	<b>2023 (RMB)</b>
Historical annual caps (Note)	2,420 million	2,420 million	2,420 million
Utilisation rates	99.96%	99.59%	99.59%

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### *Proposed annual caps for the three years ending 31 December 2026*

The Directors propose the maximum daily balances (including accrued interest) of the Deposit Services contemplated under the 2023 Financial Services Framework Agreement for the three years ending 31 December 2026 to be as follows:

	Year ending 31 December		
	2024	2025	2026
	(RMB)	(RMB)	(RMB)
Proposed maximum daily balances (including accrued interest) of the Deposit Services under the 2023 Financial Services Framework Agreement <sup>Note</sup>	5,500 million	5,500 million	5,500 million

*Note:* As disclosed in the Company's circular dated 27 November 2020, the Company's poll results announcement dated 18 December 2020 and the Company's announcement dated 18 December 2020, the originally proposed maximum daily balances of the Deposit Services under the 2020 Financial Services Framework Agreement of RMB5,000 million for each of the three years ending 31 December 2023 (the "**Originally Proposed Caps**") were voted down by the Independent Shareholders at the Company's extraordinary general meeting held on 18 December 2020 (the "**2020 EGM**").

The Company has taken proactive steps to try to understand the dissent of the Independent Shareholders. Unfortunately, the Company was unable to obtain any specific dissenting opinions mainly because all the dissenting votes were cast by non-registered Shareholders and the Company's share registrar, Computershare Hong Kong Investor Services Limited, were unable to identify those dissenting non-registered Shareholders.

In order to facilitate the Group's continuous utilisation of financial services from the Finance Company, the Board approved and adopted the maximum daily balances of the Deposit Services under the 2020 Financial Services Framework Agreement of RMB2,420 million for each of the three years ending 31 December 2023 in placement of the Originally Proposed Caps.

Taking into account (i) the relatively low attendance rate of the Independent Shareholders at the 2020 EGM (i.e. 750,108,454 votes, representing only approximately 55.9% of the total issued Shares held by the Independent Shareholders who were entitled to vote at the 2020 EGM); (ii) the basis of determination of the annual caps as stated in below paragraphs; (iii) the reasons and benefits as stated in paragraphs under "Reasons for and benefit of entering into the 2023 Financial Services Framework Agreement" below; and (iv) the Company has established sufficient risk management and internal control measures, further details of which are set out in paragraphs under "Risk management measures taken for protecting the interests of the Company and its Shareholders as a whole in the Deposit Services transaction" and "V. Measures of internal control – 2. 2023 Financial Services Framework Agreement", the Directors are of the view that the maximum daily balances of the Deposit Services under the 2023

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Financial Services Framework Agreement of RMB5,500 million for each of the three years ending 31 December 2026 would be in the interest of the Independent Shareholders as a whole, despite the vote-down by the Independent Shareholders in 2020.

*Basis of determination of the annual caps*

The above proposed maximum daily balances (including accrued interests) of the Deposit Services contemplated under the 2023 Financial Services Framework Agreement are determined with reference to the historical amounts as stated above and the following factors:

- (i) Based on following factors (in particular, the substantial improvement in cash at bank and on hand, as well as cash and cash equivalents, as at 30 September 2023 as compared to 30 September 2020), the Directors consider that the maximum daily balances of the Deposit Services of RMB2,420 million under the 2020 Financial Services Framework Agreement fall far below the available cash balance of the Group, therefore it is expected that the Group's demand for deposits with the Finance Company will further increase in the future:
  - (a) Historical figures and utilisation rates. The utilisation rates of the maximum daily balances of the deposits for the five years ended 31 December 2022 and the nine months ended 30 September 2023 reached 99.51%, 98.80%, 99.03%, 99.96%, 99.59% and 99.59%, respectively, which were at a relatively high level. The proposed maximum daily balances of the Deposit Services for the three years ending 31 December 2026 of RMB5,500 million represented (i) an increase of RMB2,000 million, or approximately 57%, as compared to the maximum daily balances of the Deposit Services for the three years ended 31 December 2020 of RMB3,500 million under the 2017 Financial Services Framework Agreement; and (ii) an increase of RMB3,080 million, or approximately 127%, as compared to the maximum daily balances of the Deposit Services for the three years ended/ending 31 December 2023 of RMB2,420 million under the 2020 Financial Services Framework Agreement;
  - (b) Business development of the Group. The revenue for the year ended 31 December 2022 increased by approximately 30% as compared to the year ended 31 December 2019 (being the latest full financial year prior to entering into the 2020 Financial Services Framework Agreement);
  - (c) Substantial improvement in financial position of the Group. The Group's (i) cash at bank and on hand as at 30 September 2023 (approximately RMB44.3 billion) increased by approximately RMB4,800 million, or 12%, as compared to that as at 30 September 2020 (approximately RMB39.4 billion) (being the latest available financial information when entering into the 2020 Financial Services Framework Agreement); and (ii) cash and

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cash equivalents as at 30 September 2023 (approximately RMB33.3 billion) increased by approximately RMB1,500 million, or 5%, as compared to that as at 30 September 2020 (approximately RMB31.8 billion); and

- (d) The Group has sufficient funds. The maximum daily balances of the Deposit Services under the 2017 Financial Services Framework Agreement and the 2020 Financial Services Framework Agreement only accounted for 9%, 9%, 7%, 6%, 4% and 7% (the “**Historical Maximum Balance to Cash Proportion**”) of the cash and cash equivalents of the Group as at 31 December 2018, 2019, 2020, 2021 and 2022 and 30 September 2023, respectively;
  
- (ii) The proposed maximum daily balances of the Deposit Services of RMB5,500 million under the 2023 Financial Services Framework Agreement accounted for approximately 10% of the cash and cash equivalents as at 31 December 2022, which is only slightly higher than the Historical Maximum Balance to Cash Proportion. Having considered the fact that the cash and cash equivalents of the Group exceeds the maximum daily balances of the Deposit Services provided by the Finance Company, the relatively high historical utilisation rates and the fact that the Group has always engaged both commercial banks and the Finance Company to provide the Deposit Services in the past, the Directors believe that raising the maximum daily balances of the Deposit Services to RMB5,500 million could provide the Group with greater flexibility in engaging the Finance Company or other independent third party financial institutions for the Deposit Services. The Deposit Services provided by the Finance Company will supplement those of commercial banks, so that the Group can maintain an optimal capital structure and in the best interests of Shareholders and other creditors;
  
- (iii) The Finance Company may provide relatively stable Deposit Services with higher deposit interest rates;
  
- (iv) The Finance Company will provide settlement service to the Group for free and shall ensure the safe operation of the fund settlement network, safeguard the safety of funds, control the risk of assets and liabilities and meet the payment needs of the Group. Also, the Finance Company will provide commercial bills information enquiry service to the Group for free. In addition, the Finance Company will provide diversified financial services, such as national monetary policy dynamics, financial market price dynamics, financial risk analysis and highlights and commercial bank annual information analysis, to supplement services provided by banks in counter-cyclical and critical periods and enable the Group to understand the market and control financial risks; and

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- (v) Taking into account the liquidity risk (being having sufficient and flexible cash and cash equivalents to meet the needs of daily operations) and the fact that Finance Company undertakes to grant the Group with a credit line not less than the deposit cap, the Group intends to increase the maximum daily balances of the Deposit Services to realise resource sharing and win-win situation.

### 3. *Reasons for and Benefit of Entering into the 2023 Financial Services Framework Agreement*

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

- (i) *Obtain convenient and diversified financial services, effectively lower costs and expenses and enhance competitiveness and bargaining power*

The Finance Company has been dedicated to serving the Group for a long time and can offer more favorable, diversified, flexible and personalised financial services than third-party commercial banks. In addition, the 2023 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, entering into the 2023 Financial Services Framework Agreement will provide the Group with an additional financial services provider and help improve the Group's bargaining power with other external financial institutions.

All financial services provided by the Finance Company to the Group shall be on normal commercial terms or better. Among which:

- (a) in respect of the Deposit Services, the interest rates offered by the Finance Company will not be lower than those offered by three major commercial banks for the same type of deposits. The procedures for withdrawal of the deposits are convenient and the categories and term of the deposits are flexible, which will improve the capital utilisation efficiency of the Group;
- (b) in respect of the loan services, the terms of the loans provided to the Group by the Finance Company shall be no less favorable than the terms of the same type of loans offered to the Group by independent third party commercial banks which have existing cooperative relationships with the Group, and the interest rate shall not be higher than those offered by three major commercial banks for the same type of loans, along with relatively simple business process and relatively efficient approval, which will lower the financing costs of the Group;

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- (c) in respect of the Other Financial Services, by taking advantage of the familiarity with the Group, the Finance Company can formulate a tailored, flexible and customised financial services (such as capital management, financial services, etc.) plan for the Group, which is characterised by rapid responses, favorable rates and strong pertinence; and
- (d) the Finance Company will provide the Group with settlement service for free, which also enables the Group to save settlement expenses.

All the above-mentioned can help improve the Group's bargaining power with other external financial institutions.

(ii) *Indirectly increase investment income*

The Group's deposits placed with the Finance Company can bring investment income to the Group. The Company holds approximately 4.5% equity interests in the Finance Company. The 2023 Financial Services Framework Agreement (including the Deposit Services, loan services and Other Financial Services) will help improve profits and investment income of the Finance Company, obtain stable investment income through annual cash dividend and also supplement the cash flow of the Company.

(iii) *Risk guarantee*

As a non-bank financial institution established with the approval of the former CBIRC, the Finance Company is subject to the routine supervision by the regulatory authorities. 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 and is guided and regulated by the NAFR and its agencies, the PBOC, the State Administration of Foreign Exchange, the China National Association of Finance Companies, the State-owned Assets Supervision and Administration Commission, etc. In particular, the funds of the Finance Company are strictly managed to guarantee the fund safety. During the daily operation, the NAFR and its agencies comprehensively supervised the independence and compliance of the Finance Company through on-site inspections and off-site inspections to ensure the regulated operations of the Finance Company.

In accordance with regulatory requirements, the Finance Company submits various regulatory reports to regulatory institutions on a daily, monthly, quarterly, and annual basis, including capital adequacy ratio, liquidity ratio, guarantee ratio, investment ratio, etc. The Finance Company is the same as other banks in terms of supervision intensity, risk control system and capital security. As of 30 September 2023, the capital adequacy ratio, liquidity ratio, inter-bank lending ratio, guarantee ratio, investment ratio, the ratio of self-owned fixed assets, non-performing loan ratio and non-performing asset ratio was 21.63%,

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60.84%, 0%, 2.80%, 67.09%, 0.08%, 0% and 0%, respectively. All of the above indicators reflect that the Finance Company is an institution with good credit and high-quality assets, and its counterparty risk, credit risk, market risk and liquidity risk are significantly lower than the industry average. Since its establishment up to the Latest Practicable Date, the Finance Company has complied with all the relevant requirements from the NAFR in respect of the above ratios and applicable rules and regulations stipulated by the NAFR. In addition, the Finance Company undertakes to provide the Group with key regulatory indicator data on a regular basis.

The Finance 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 the Finance Company shall not be lower than the minimum permitted by the PBOC at any time. Since its establishment up to the Latest Practicable Date, the Finance Company has complied with such regulatory requirements in respect of the deposit reserves. When providing financial services to the Group on a non-exclusive basis, the Finance Company will ensure that the ownership of and the right to use deposit funds of the Group and the interests derived from its deposit funds will not be affected. The Finance Company is responsible for ensuring the safety of the funds deposited by the Group and the independence of use of such funds by the Group. In addition, the Finance Company undertakes to maintain sufficient liquidity and ensure the safety of the Group's funds to ensure that the Group's deposit funds can be used at any time.

**4. *Risk Management 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, the 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 the Finance Company include:

- (i) The Finance Company has formulated a sound internal control management system and risk management system, made emergency plans based on different risks to effectively prevent risks, implemented the internal audit supervision system, established the risk control committee responsible for its board of directors, and set up risk management department and audit department to supervise and audit its business activities. Each business department formulates corresponding standardised operating procedures, operation standards and risk prevention measures according to each business, predicts, evaluates and controls credit risk, liquidity risk, market risk, operation risk, system risk, compliance risk and reputation risk in business operations, submits risk and internal control work reports and other work reports to the directors of the Finance Company on a regular basis and supervises the daily risk management and control, risk governance and business development of the Company to ensure the safety of funds deposited by the Group;

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- (ii) The 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 various settlement and deposit businesses, and effectively control business risks. The Finance Company follows the principles of equality, willingness, fairness and integrity to ensure the safety of customers' funds, complies with the basic principle of the PBOC for "abiding by the credit" in the settlement business, performs the contractual payment obligations, actively cooperates with the Group in managing the funds, provides relevant information statements as required in time, and regularly made reconciliations with customers to ensure the safety of the funds. In respect of withdrawing process of deposited funds from the Finance Company, the Group may submit a withdrawal instruction through an online platform of the Finance Company and can receive the funds on the same day on which it applies for such withdrawal, which is comparable to that offered by major commercial banks;
- (iii) The Finance Company has 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 NAFR and the PBOC, so as to effectively control the risks of credit business;
- (iv) The Finance Company has required the business personnel to comply with the systems, not to disclose customers' information without permission, and to sign confidentiality agreements and receive relevant trainings to understand how to handle and protect customers' information and keep customers' deposits confidential; and
- (v) The Finance Company will ensure the stability of the system and upload financing data and other information to the Group on a daily basis to facilitate the Group to control its financial risks. The Finance Company strengthened technical security measures, formulated the measures for management of information technology risks and business continuity, emergency plans, etc., regularly carried out security inspection and loophole repair on the system, and conducted emergency exercises at least once a year to ensure the security and stability of the business system of the Company.

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

Meanwhile, as described below in the section headed “V. Measures of Internal Control - 2. 2023 Financial Services Framework Agreement”, the Group also adopted reasonable internal control procedures and corporate governance measures in relation to its utilisation of the financial services provided by the Finance Company.

#### IV. GENERAL INFORMATION OF THE PARTIES

##### *The Company*

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

##### *CNPGC*

CNPGC is a state wholly-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.

##### *The Finance Company*

The Finance Company is a non-bank financial institution established on 23 February 2012 upon the approval of the former CBIRC, and is regulated by the PBOC and the NAFR. The Finance Company is owned as to 52.7750%, 4.5455%, 31.7705%, 5.4545% and 5.4545% by CNPGC, the Company, CNBG, CNTCM and Shyndec Pharmaceutical respectively, with the registered capital of RMB2.2 billion. CNBG, CNTCM and Shyndec Pharmaceutical are all subsidiaries of CNPGC.

The 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, entrustment loans, settlement services, non-financing letter of guarantee as well as Other Financial Services such as provision of credit certification, financial advisory and other advisory agency services and other services as may be approved by the NAFR.

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### V. 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 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the 2023 Financial Services Framework Agreement, from time to time, the Company has adopted and would continue to strengthen the below internal control policies for its daily operation. The Directors consider that such internal policies and procedures can ensure the continuing connected transactions contemplated under each of the 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the 2023 Financial 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.

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 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the 2023 Financial 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 will also conduct an annual review on the pricing terms and annual caps of such non-exempt continuing connected transactions. When conducting the annual review, the Company will provide the auditors with all required data and information on continuing connected transactions. The Company and its subsidiaries will also promptly cooperate with the auditors for inspection and verification and offer relevant execution agreements for the auditor to review whether the execution agreements comply with the terms of the framework agreements in all material respects. The finance department of the Company will also maintain close communication with the auditors to answer relevant questions raised by the auditors during the annual review in a timely manner.

#### ***1. 2023 Procurement Framework Agreement and 2023 Sales Framework Agreement***

In respect of the continuing connected transactions contemplated under the 2023 Procurement Framework Agreement and the 2023 Sales Framework Agreement, the Group has adopted following internal control measures:

##### *Especially for 2023 Procurement Framework Agreement*

- (i) In determining the price for the procurement of products from the CNPGC Group, such price (being the procurement costs of products of the Group), when aggregated with the distribution costs of the Group, shall still enable the Group to achieve level of gross profit from the sale of such products comparable to the gross profit margin that would be achieved if the relevant or similar products to be sold were purchased from independent third parties under the same or similar business model.

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## LETTER FROM THE BOARD

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- (ii) Before purchasing products from the CNPGC Group, the Group will determine whether to accept the procurement price for a particular product offered by the CNPGC Group after (a) comprehensively considering a variety of factors relating to particular products, including but not limited to the market pricing rule of the pharmaceutical distribution industry, quality, credit period, delivery method, after-sales service, gross profit and average price in the industry; and (b) going through all necessary internal review and approval procedures by the president and/or various departments of the relevant members of the Group (including but not limited to the procurement department, finance department, legal and compliance department, quality department and operation department).

When determining whether to accept the price of the products as offered by the CNPGC Group, the Group will make reference to the followings: for products with public bidding price/public procurement price, after taking into account the tender price won in the public bidding process which is held by the tender offices of relevant PRC local government or hospitals and participated by the CNPGC Group and other independent third parties in respect of particular product, geographical location of the products, the market size of products and the above factors stated in (ii)(a). For products without public bidding price/public procurement price, the Group will generally inquire the quotations offered by not less than three independent third parties in respect of the same product. For products without market price (for instance, if there are no other suppliers for similar products, or if the product is proprietary), the purchase terms and price will be determined based on the transaction principles and pricing policies (including the distribution costs of the Group, the profit level of the Group and the proposed terminal sales price provided by the CNPGC Group for the relevant products in the corresponding channel) under the 2023 Procurement Framework Agreement, and with reference to the purchase terms and price and the factors stated in (ii)(a) above of substantially similar type of purchase transactions of the Group.

After considering above factors and going through such internal procedures, the Group will determine whether to accept the procurement price of the products as offered by the CNPGC Group. If the Group, after taking into consideration all the above-mentioned factors and going through internal procedures, considers that the procurement price offered by the CNPGC Group is not in the best interest of the Company and its Shareholders, or is not fair and reasonable, it will not to purchase such products from the CNPGC Group.

*Especially for 2023 Sales Framework Agreement*

- (i) The president and various departments (including but not limited to the procurement department, finance department, legal and compliance department, quality department and operation department) of relevant members of the Group will carry out all necessary internal review and approval procedures. The departments of the Group responsible for the execution of connected transactions (including but not limited to those responsible for legal, finance, operation, etc.) will generally compare the terms and conditions of the specific agreements with

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## LETTER FROM THE BOARD

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at least two comparable agreements entered into with independent third parties through price inquiry or comparison prior to the entering into of the specific agreements, so as to ensure that the pricing policies (such as the profit level of the Group) of the relevant products offered by the Group to the CNPGC Group under the same or similar business model are comparable to those offered to independent third parties.

*Applicable to both 2023 Procurement Framework Agreement and 2023 Sales Framework Agreement*

- (i) The operation department of the Company is responsible for taking the lead in requesting the subsidiaries that conducting continuing connected transactions 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. The finance department of the Company is responsible for continuously monitoring and collecting from subsidiaries at least quarterly the actual amount of continuing connected transactions. The office of the Board, the operation department and the finance department of the Company shall check the collected actual amount of continuing connected transactions of subsidiaries for each quarter as soon as possible to jointly confirm the final actual amount. The Company established a continuing connected transaction management working group with the participation of the office of the Board, the heads of the operation department, the finance department, the treasury department, the legal and compliance department and other departments of the Company and the secretaries of the boards of directors of significant subsidiaries as members. The office of the Board is responsible for taking the lead in organising the working group to hold meetings from time to time and leading relevant departments to review the list of connected persons that is updated from time to time.
- (ii) In addition to the Group's quarterly review of actual amounts for continuing connected transactions, the enhanced internal control measures require that (a) if the actual amount of any continuing connected transaction has reached 70% of the cap of the current year, the finance department shall immediately notify relevant departments, and the office of the Board shall take the lead in organising relevant departments to jointly formulate a response plan; and (b) the operation department shall analyse 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 it is expected 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 relevant departments on a response plan. The response plan mentioned in this paragraph will include, but not limited to, the proposed

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## LETTER FROM THE BOARD

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revision of the annual caps before the annual caps are to be fully utilised and submitting the proposal to the Shareholder's general meeting for consideration and approval.

### 2. *2023 Financial Services Framework Agreement*

In respect of the continuing connected transactions contemplated under the 2023 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:

- (i) The Group will consider using the services of the Finance Company on a fair, voluntary and non-exclusive basis. The Finance Company is only one of the financial institutions that provide services to the Group. The 2023 Financial Services Framework Agreement does not restrict the Group from using the services of other financial institutions. The Group is still able to independently choose services provided by other financial institutions based on its own interests;
- (ii) Where a need for the financial services arises, the Capital Management Department would obtain the rates and terms offered by the Finance Company and not less than three major independent PRC commercial banks for comparison against the pricing policies referred to in the 2023 Financial Services Framework Agreement to ensure the condition of financial services offered to the Group by the Finance Company shall neither be less favorable than those offered to other members of CNPGC Group for the same type of financial services, nor be less favorable than those available to the Group from commercial banks or other financial institutions for the same type of financial services. If after comparison, the Capital Management Department confirmed that the rates and terms provided by the 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 2023 Financial Services Framework Agreement, such application will be submitted to the chief financial officer for final approval upon obtaining approval from the head of the finance department or the head of the Capital Management Department of the Group.
- (iii) The Group (via the internal treasury system on a real-time basis) and the Finance Company (on each business day) will monitor the balance of deposits and utilisation rate of maximum daily balances of the Deposit Services. Daily reports on the balance of the Group's deposits placed with the Finance Company at the end of each month and the maximum deposit balance for the month will be delivered to the Company by the Finance Company on the first business day of the following month. Furthermore, once the Group's deposit balance placed with the Finance Company reaches 70% of the annual cap of that year, the Group will report to the management and ensure that the daily balance of deposits should not exceed the annual cap. On the other hand, the Finance Company will also report

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## LETTER FROM THE BOARD

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such situation to the Company on the following day so as to facilitate the real-time monitoring by the Group until the daily deposit balance falls below 70% of the annual cap of that year, and then the monthly reporting mechanism will be resumed; and

- (iv) The independent non-executive Directors of the Company have reviewed the 2023 Financial Services Framework Agreement and would continue to review the non-exempt continuing connected transactions contemplated under the 2023 Financial Services Framework Agreement to ensure such continuing connected transactions are conducted on normal commercial terms or better, are fair and reasonable, and are carried out pursuant to the terms of such agreement. The auditors of the Company would also conduct an annual review on the pricing terms and annual caps of the non-exempt continuing connected transactions contemplated under the 2023 Financial Services Framework Agreement.

### VI. HONG KONG LISTING RULES IMPLICATIONS

CNPGC is the ultimate controlling shareholder of the Company, therefore, CNPGC and the Finance Company are connected persons of the Company under the Hong Kong Listing Rules. Each of the 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the 2023 Financial Services Framework Agreement and the transactions contemplated thereunder 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 in respect of (i) the proposed annual caps for the continuing connected transactions contemplated under the 2023 Procurement Framework Agreement and the 2023 Sales Framework Agreement; and (ii) the proposed maximum daily balances of the Deposit Services contemplated under the 2023 Financial Services Framework Agreement exceed 5%, such agreements and transactions are subject to the reporting, announcement, annual review and 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 the proposed maximum daily balances of the Deposit Services contemplated under the 2023 Financial Services Framework Agreement exceed 5% but are less than 25%, the Deposit Services are also subject to the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders on (i) the terms of the 2023 Procurement Framework Agreement and the 2023 Sales Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof; and (ii) the terms of the 2023 Financial Services Framework Agreement, the Deposit Services contemplated thereunder and the proposed maximum daily balances of the Deposit Services thereof. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## LETTER FROM THE BOARD

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### (III) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATIONS

Due to the change of registered address of the Company proposed by the Board, the Board also proposed the following amendments to Article 3 of the Articles of Association:

Which originally reads as:

“Address of the Company: 1st Floor, No. 385 East Longhua Road, Huangpu District, Shanghai, the PRC

Post Code: 200023

Telephone Number: 86-21-23052666

Fax Number: 86-21-23052888”

is proposed to be amended as follows:

“Address of the Company: 1st and 11th to 15th Floors, No. 385 East Longhua Road, Huangpu District, Shanghai, the PRC

Post Code: 200023

Telephone Number: 86-21-23052666

Fax Number: 86-21-23052888”

### (IV) EGM

A notice convening the EGM to be held at 9:00 a.m. on Wednesday, 20 December 2023 at Meeting Room 1401, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the PRC is set out at the end of this circular.

In accordance with the Hong Kong Listing Rules, CNPGC and its associates will abstain from voting on the resolutions to be proposed at the EGM in relation to (i) the 2023 Procurement Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof; (ii) the 2023 Sales Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof; and (iii) the 2023 Financial Services Framework Agreement, the Deposit Services contemplated thereunder and the proposed maximum daily balances of the Deposit Services thereof. As at the Latest Practicable Date, CNPGC and its associates hold in aggregate 1,778,845,451 shares of the Company, which represent approximately 57.00% of the issued share capital of the Company, control or are entitled to control over the voting right in respect of their shares in the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than CNPGC and its associates, no other connected person of the Company, Shareholders or their respective associate has a material interest in the transactions contemplated under the 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the 2023 Financial Services Framework Agreement and is required to abstain from voting on the relevant resolutions to be proposed at the EGM.

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## LETTER FROM THE BOARD

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A proxy form to be used at the EGM is also enclosed herein and published on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). Shareholders who intend to appoint a proxy to attend the EGM shall complete, sign and return the appropriate proxy form in accordance with the instructions printed thereon.

For holders of H Shares, the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid. For holders of Domestic Shares, the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Board Office of the Company in the PRC at Room 1210, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai 200023, the PRC, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.

Pursuant to the Articles of Association, for the purpose of holding the EGM, the register of members of H Shares will be closed from Friday, 15 December 2023 to Wednesday, 20 December 2023 (both days inclusive), during which no transfer of H Shares will be registered. Shareholders whose names appear on the register of members of the Company on Friday, 15 December 2023 are entitled to attend and vote at the EGM.

### (V) RECOMMENDATION

The following Directors, being Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Wang Kan and Mr. Wang Peng, are also management of CNPGC, and Mr. Wang Peng is also a director of the Finance Company. Therefore, they are deemed to have material interests in the transactions contemplated under the 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the 2023 Financial Services Framework Agreement, and thus have abstained from voting on the relevant resolution at the Board meeting. Save as mentioned above, none of 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 (excluding the Directors who shall abstain from voting on the relevant resolution and the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) are of the view that the transactions under the 2023 Procurement Framework Agreement and the 2023 Sales Framework Agreement and the transactions in respect of the Deposit Services under the 2023 Financial Services Framework Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions thereof as well as the proposed annual caps for such transactions/ the proposed maximum daily balances of the Deposit Services thereof are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (excluding the Directors who shall abstain from voting on the relevant resolution and the independent non-executive Directors whose views will be given after taking into account the advice from the

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## LETTER FROM THE BOARD

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Independent Financial Adviser) recommend the Independent Shareholders to vote in favor of the resolutions in relation to the 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the 2023 Financial Services Framework Agreement to be proposed at the EGM.

In addition, the Directors are of the view that the resolution in relation to the proposed amendments to the Articles of Association is in the interests of the Company and its Shareholders as a whole. Therefore, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favor of the resolution in relation to the proposed amendments to the Articles of Association to be proposed at the EGM.

### (VI) ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 39 to 40 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders; and (ii) the letter from the Independent Financial Adviser on pages 41 to 65 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice.

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

Yours faithfully,  
By Order of the Board  
**Sinopharm Group Co. Ltd.**  
**Yu Qingming**  
*Chairman*



**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)**

5 December 2023

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS: 2023 PROCUREMENT  
FRAMEWORK AGREEMENT AND 2023 SALES FRAMEWORK AGREEMENT;  
AND  
(2) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED  
TRANSACTION: 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT**

We refer to the circular of the Company dated 5 December 2023 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider and advise you as to whether, in our opinion, (i) the terms of the 2023 Procurement Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof; (ii) the terms of the 2023 Sales Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof; and (iii) the terms of the 2023 Financial Services Framework Agreement, the Deposit Services contemplated thereunder and the proposed maximum daily balances of the Deposit Services thereof (the “**Matters on Referred Continuing Connected Transactions and Annual Caps**”), the details of which are set out in the letter from the Board, are fair and reasonable so far as the Independent Shareholders are concerned.

Gram Capital has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of the Matters on Referred Continuing Connected Transactions and Annual Caps. Details of the advice from the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out in which are set out on pages 41 to 65 of the Circular.

\* *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.”.*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Your attention is also drawn to the letter from the Board set out on pages 6 to 38 of the Circular and the additional information set out in the Appendix.

Having considered the Matters on Referred Continuing Connected Transactions and Annual Caps, interests of the Independent Shareholders and the advice of the Independent Financial Adviser, we are of the opinion that the 2023 Procurement Framework Agreement, the 2023 Sales Framework Agreement and the Deposit Services contemplated under the 2023 Financial Services Framework Agreement were 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 proposed annual caps for such transactions/the proposed maximum daily balances of Deposit Services thereof are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM so as to approve the Matters on Referred Continuing Connected Transactions and Annual Caps.

Yours faithfully,

For and on behalf of the Independent Board Committee of

**Sinopharm Group Co. Ltd.**

**Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung,**

**Mr. Yu Weifeng and Mr. Shi Shenghao**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

5 December 2023

*To: The independent board committee and the independent shareholders  
of Sinopharm Group Co. Ltd.*

Dear Sirs,

### **(I) CONTINUING CONNECTED TRANSACTIONS; AND (II) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) transactions contemplated under the 2023 Procurement Framework Agreement (the “**Procurement Transactions**”); (ii) transactions contemplated under the 2023 Sales Framework Agreement (the “**Sales Transactions**”); and (iii) deposit services contemplated under the 2023 Financial Services Framework Agreement (the “**Deposit Services**”, together with the Procurement Transactions and the Sales Transactions, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 5 December 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 9 November 2023, the Company and CNPGC entered into (i) the 2023 Procurement Framework Agreement, pursuant to which 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; and (ii) the 2023 Sales Framework Agreement, pursuant to which 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.

On the even date, the Company and the Finance Company entered into the 2023 Financial Services Framework Agreement, pursuant to which the Finance Company will provide, among other things, Deposit Services to the Group, for a term of three years from 1 January 2024 to 31 December 2026.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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With reference to the Board Letter, the Transactions constitute continuing connected transactions and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under chapter 14A of the Hong Kong Listing Rules. The Deposit Services also constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung, Mr. Yu Weifeng and Mr. Shi Shenghao (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to continuing connected transactions (details of which are set out in the Company's circular dated 5 May 2022). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

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

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial adviser engagements and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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undisclosed private agreements/arrangements or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNPGC, the Finance Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

#### **Background of and reasons for the Transactions**

##### **Information on the Company**

With reference to the Board Letter, the Company is principally engaged in the distribution of pharmaceutical products, medical devices and health products, operation of retail pharmacies and production and sale of chemical reagents.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below are the Group's consolidated financial information for the two years ended 31 December 2022 as extracted from the Company's annual report for the year ended 31 December 2022 (the "2022 Annual Report"):

	<b>For the year ended 31 December 2022 ("FY2022") RMB '000 (audited)</b>	<b>For the year ended 31 December 2021 ("FY2021") RMB '000 (audited)</b>	<b>Change %</b>
Revenue	552,147,550	521,051,235	5.97
– Pharmaceutical distribution	406,603,533	389,954,789	4.27
– Medical device	120,851,479	108,129,208	11.77
– Retail pharmacy	32,979,336	29,059,250	13.49
– Other business	10,209,124	9,820,967	3.95
– Eliminations	(18,495,922)	(15,912,979)	16.23
Gross profit	47,434,060	44,050,608	7.68
Profit for the year attributable to owners of the Company	8,525,655	7,758,646	9.89

As illustrated by the above table, the Group's revenue for FY2022 increased by approximately 5.97% as compared to that for FY2021. With reference to the 2022 Annual Report, such increase was mainly attributable to the increase in revenue from the Group's pharmaceutical distribution business, retail pharmacy business and medical device business. The segment information for FY2022 is as follows:

- Pharmaceutical distribution segment: revenue from pharmaceutical distribution of the Group accounted for 71.25% of the total revenue of the Group and represented an increase of 4.27% as compared with that for FY2021. Such increase was mainly due to the increase in the distribution scale of retail pharmacies and the growth of the acquisition rate of the varieties involved in volume-based procurement.
- Medical device segment: revenue from medical device of the Group accounted for 21.18% of the total revenue of the Group and represented an increase of 11.77% as compared with that for FY2021. The increase was primarily due to the expansion of agency territories, the addition of new agency products and the growth of winning customers.
- Retail pharmacy segment: revenue from retail pharmacy of the Group accounted for 5.78% of the total revenue of the Group and represented an increase of 13.49% as compared with that for FY2021. The increase was primarily due to the growth in prescription drug sales and the expansion of the Group's network of retail pharmacies.
- Other business segment: revenue from other business of the Group represented an increase of 3.95% as compared with that for FY2021. The increase was primarily due to the growth in revenue from chemical reagents and pharmaceutical manufacturing business.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group's gross profit also increased slightly as compared to that for FY2021. In addition, profit for the year attributable to owners of the Company was approximately RMB8.53 billion for FY2022, representing an increase of approximately 9.89% as compared to that for FY2021. With reference to the 2022 Annual Report, such increase was mainly due to (i) the aforesaid increase in the Group's revenue and gross profit; (ii) the increase in other income; and (iii) the reduction in other expenses and finance costs.

Set out below are the Group's consolidated financial information for the six months ended 30 June 2023 ("1H2023") as extracted from the Company's interim report for the six months ended 30 June 2023 (the "2023 Interim Report"):

	<b>For the six months ended 30 June 2023</b>	<b>For the six months ended 30 June 2022</b>	<b>Change</b>
	<i>RMB '000</i>	<i>RMB '000</i>	<i>%</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue	300,950,280	261,471,723	15.10
– Pharmaceutical distribution	225,432,947	196,523,942	14.71
– Medical device	62,953,586	53,684,235	17.27
– Retail pharmacy	17,696,505	15,274,096	15.86
– Other business	5,409,095	4,858,723	11.33
– Eliminations	(10,541,853)	(8,869,273)	18.86
Gross profit	23,270,681	21,657,494	7.45
Profit for the period attributable to owners of the Company	4,104,439	3,693,744	11.12

As illustrated by the above table, the Group's revenue for 1H2023 increased by approximately 15.10% as compared to that for the corresponding period in 2022 ("1H2022"). With reference to the 2023 Interim Report, such increase was mainly due to the increase in revenue from the Group's pharmaceutical distribution business, retail pharmacy business and medical device business. The segment information for 1H2023 is as follows:

- Pharmaceutical distribution segment: revenue from pharmaceutical distribution of the Group represented an increase of 14.71% as compared with that for 1H2022 and accounting for 72.37% of the total revenue of the Group. Such increase was mainly due to the increase in the distribution scale of retail pharmacies and the growth of the acquisition rate of the varieties involved in the volume-based procurement
- Medical device segment: revenue from medical device of the Group represented an increase of 17.27% as compared with that for 1H2022 and accounting for 20.21% of the total revenue of the Group. Such increase was primarily due to the business expansion of the Group's medical device business.
- Retail pharmacy segment: revenue from retail pharmacy of the Group represented an increase of 15.86% as compared with that for 1H2022 and accounting for 5.68% of the total revenue of the Group. Such increase was primarily due to the growth in retail pharmacy market and the expansion of the network of the Group's retail pharmacies.

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- Other business segment: revenue from other business of the Group represented an increase of 11.33% as compared with that for 1H2022, primarily due to the increase in revenue from logistics and marketing businesses.

The Group's gross profit also increased slightly as compared to that for 1H2022. In addition, profit for the period attributable to owners of the Company was approximately RMB4.1 billion for 1H2023, representing an increase of approximately 11.12% as compared to that for 1H2022. With reference to the 2023 Interim Report, such increase was mainly due to (i) the aforesaid increase in the Group's revenue and gross profit; (ii) the increase in other income, other gains and finance income; and (iii) the reduction in losses on derecognition of financial assets measured at amortised cost and finance costs.

With reference to the 2023 Interim Report, the Group will actively follow the changes in industry policies, technologies and market landscape, fully implement the strategy of service transformation and innovation-driven development, continue to promote the progress of digital transformation, and accelerate the cultivation and incubation of innovative businesses. At the same time, the Group will further improve the operation efficiency and compliance supervision, build efficient management systems and mechanisms, continue to lead the development and reform of the industry in the process of continuously consolidating the Group's core competitive advantages, and steadily transform itself into "an efficient pharmaceutical supply chain organiser and an industry comprehensive service solution provider".

### Information on CNPGC

With reference to the Board Letter, 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.

### Information on the Finance Company

With reference to the Board Letter, the Finance Company is a non-bank financial institution established on 23 February 2012 upon the approval of the former CBIRC, and is regulated by the PBOC and the NAFR. As at the Latest Practicable Date, the Finance Company is owned as to 52.7750%, 4.5455%, 31.7705%, 5.4545% and 5.4545% by CNPGC, the Company, CNBG, CNTCM and Shyndec Pharmaceutical respectively, with the registered capital of RMB2.2 billion. CNBG, CNTCM and Shyndec Pharmaceutical are all subsidiaries of CNPGC.

The 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, entrustment loans, settlement services, non-financing letter of guarantee 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 NAFR.

As confirmed by the Company, the Finance Company is required to operate in compliance with the 《企業集團財務公司管理辦法》 (Administrative Measures for Group Finance Companies\*, the "Administrative Measures") promulgated by China Banking and Insurance Regulatory Commission\* (中國銀行保險監督管

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理委員會), which was replaced by NAFR in May 2023. Pursuant to the Administrative Measures, it regulates the operation of non-banking financial institutions which provide financial services to the enterprise group member entities. The Administrative Measures set out certain compliance and risk control requirements/measures in relation to the operation of group financing companies, including but not limited to maintaining certain financial ratios at all times. Furthermore, pursuant to the Administrative Measures, in the event that a group finance company faces any difficulty in making payment, the parent group company and controlling shareholder(s) of group finance company will increase such group finance company's capital accordingly based on the actual need.

Based on our discussions with the Finance Company, we understood that the NAFR monitors the Finance Company's operations and compliance with relevant laws and regulations, through on-site examinations and off-site surveillance, from time to time. The NAFR may impose corrective and punitive measures, including fines and ordering the suspension of certain business activities. According to the management of the Finance Company, the NAFR has not taken any disciplinary actions, or imposed penalties or fines on the Finance Company for the two years ended 31 December 2022.

As further advised by the Finance Company, the Finance Company is required to submit quarterly risk report of the Finance Company's business operation to the NAFR.

### **Reasons for the Transactions**

#### *Procurement Transactions and Sales Transactions*

With reference to the Board Letter:

- a) The CNPGC Group is the largest pharmaceutical group in China and is a well-known pharmaceutical corporation with outstanding competency in pharmaceutical industry and sound financial condition, and has developed extensive experience and good service systems in respect of the products under the 2023 Procurement Framework Agreement;
- b) the 2023 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 satisfying the expected increase in customers' demand; (ii) the CNPGC Group to provide stable and high-quality services for the Group because it is familiar with the business and operational needs of the Group by virtue of the long-term cooperation with the Group in previous years; and (iii) the Group to fully leverage on advantages of the CNPGC Group to achieve better operating performance.
- c) the 2023 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; (ii) the Group to increase the sales volume of relevant products by actively expanding the CNPGC Group as the target customer group and the possible further introduction of the Group's products to other customers by the CNPGC Group; and (iii) the Group to fully leverage on advantages of the CNPGC Group to achieve better operating performance.

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As the Transactions are expected to be conducted in the ordinary and usual course of business of the Group and on a frequent basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Hong Kong Listing Rules, if necessary. Accordingly, the Directors are of the view that the Procurement Transactions and the Sales Transactions will be beneficial to the Company and the Shareholders as a whole.

Having considered that (i) long-term business relationships between the Group and the CNPGC Group; (ii) the Procurement Transactions enable the Company to have a stable supply source; (iii) the Sales Transactions enable the Group to have stable customers to sell products; and (iv) it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Hong Kong Listing Rules, if necessary, we are of the view that the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

### *Deposit Services*

With reference to the Board Letter, benefits of the entering into of the 2023 Financial Services Framework Agreement (including the Deposit Services) included, among other things, (i) to obtain convenient and diversified financial services, effectively lower costs and enhance competitiveness and bargaining power; (ii) to indirectly increase investment income; and (iii) risk guarantee.

Pursuant to the 2023 Financial Services Framework Agreement, in determining the interest rates for the deposits to be placed by the Group with the Finance Company, the Group shall obtain the quotation on interest rates from the Finance Company, and make reference to the Reference Deposit Rates. The interest rate applicable to the Group for its deposits with the Finance Company shall, subject to compliance with requirements on interest rates prescribed by the PBOC for such type of deposits, be the higher of (i) the maximum Reference Deposit Rates; and (ii) the interest rates offered by the Finance Company.

We further noted from the 2023 Financial Services Framework Agreement that the Group will consider using the services of the Finance Company on a fair, voluntary and non-compulsory basis and is not obliged to engage Finance Company for any particular service.

Despite that the deposit services under a financial services framework agreement dated 22 October 2020 (the “**2020 October FS Framework Agreement**”) was not approved by the then independent shareholders of the Company, we consider that the fairness and reasonableness of the Deposit Services has no relevancy on the poll results from the shareholders.

In light of the above reasons, in particular, (i) the pricing policy of the Deposit Services; (ii) that the Group will utilize the financial services of Finance Company on a voluntary and non-compulsory basis and is not obliged to engage Finance Company for any particular service; and (iii) the fairness and reasonableness of the Deposit Services has no relevancy on the poll results from the shareholders, we consider the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

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### A. THE PROCUREMENT TRANSACTIONS

#### Principle terms of the Procurement Transactions

Set out below are the key terms of Procurement Transactions, details of which are set out under the section headed “2023 Procurement Framework Agreement” of the Board Letter.

**Date:** 9 November 2023

**Parties:** (i) the Company  
(ii) the CNPGC

**Term of the Agreement:** The terms will be three years from 1 January 2024 to 31 December 2026, subject to the approval by the Independent Shareholders. Upon its expiry, the agreement will, subject to compliance with the relevant laws and regulations and the Hong Kong Listing Rules, be extended or renewed with the consent of the parties.

**Major Terms and Conditions:** Pursuant to the 2023 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 transactions under the 2023 Procurement Framework Agreement shall follow the principle of fairness, and the terms and conditions of the transactions, including but not limited to the price, shall be conducted on normal commercial terms or better and the quality and conditions of the same or similar products shall be no less favorable than those sold or offered by independent third parties to the Group or by the CNPGC Group to independent third parties.

The 2023 Procurement Framework Agreement is non-exclusive, and the Group is entitled to purchase such products from any other third parties.

The Group may, from time to time, enter into specific agreement with the CNPGC Group to specify the details such as product requirements, scope of services, delivery term, transaction amount and other specifications, provided that the principles and terms in the 2023 Procurement Framework Agreement must be followed.

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### *Pricing policy*

With reference to the Board Letter:

The price of pharmaceutical products and medical devices to be purchased by the Group from the CNPGC Group under the 2023 Procurement Framework Agreement will be determined by the parties through arm's length negotiation after mainly taking into account (i) the final price of the relevant product sold to hospitals, pharmacies and other institutions (for products procured through national centralised procurement or public bidding process by local governments, where the final price refers to the winning tender price published on the public official websites of the local governments, such as: the website of Shanghai Sunshine Medical Procurement ALL-IN-ONE (上海陽光醫藥採購網), the website of Beijing Municipal Medical Insurance Bureau Medicine Sunshine Purchasing (北京市醫療保障局陽光採購網站), the website of Tianjin Medicine Purchasing Center (天津市醫藥採購中心網站), the website of Chongqing Drug Delivery (重慶藥交網); for products that are not procured through public bidding process, the final price refers to the price that the manufacturer files with the government, such as price of medical insurance drug or the hospital's procurement price from the distributor which is determined according to the agreement between the manufacturer and the hospital, or the manufacturer's proposed terminal sales price for relevant products in the corresponding channel (such as hospitals and pharmacies)), (ii) the distribution costs of the Group; and (iii) the profit level of the Group, where such profit level refers to the gross profit margin of the Group's sales to downstream customers after deducting the procurement cost from the CNPGC Group under the 2023 Procurement Framework Agreement and distribution cost and should be comparable to the profit level of the Group that would be achieved if the relevant or similar products to be sold were purchased from independent third parties under the same or similar business model.

The price of products such as personal care supplies and health products to be purchased by the Group from the CNPGC Group under the 2023 Procurement Framework Agreement will be determined by the parties through arm's length negotiation, having mainly taken into account the proposed terminal sales price provided by the CNPGC Group for the relevant products in the corresponding channel (such as hospitals and pharmacies), the distribution costs of the Group, and the profit level of the Group on relevant products.

With reference to the Board Letter, after taking into consideration all the relevant factors and going through such internal procedures, if the Group considers 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, it is entitled not to purchase such products from the CNPGC Group.

With reference to the Board Letter, to ensure the Company's conformity with the above pricing policy from time to time, the Company has adopted and would continue to strengthen a series of internal control policies for its daily operation. Details of the internal control policies for fair pricing of the Procurement Transactions are set out under the subsection headed "Especially for the 2023 Procurement Framework Agreement" under the section headed "V. MEASURES OF INTERNAL CONTROL" of the Board Letter. As there will be pricing checking procedures before purchasing products, we consider that the effective implementation of the internal control policies would help to ensure fair pricing of the Procurement Transactions according to the pricing policies.

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For our due diligence purpose, we obtained from the Company 47 purchase records in total entered into between the Group and (i) members of CNPGC Group; and (ii) independent third parties from 2022 to 2023 in respect of the procurement of various pharmaceutical products by the Group, together with total 13 corresponding distribution records showing the Group's further distribution of the same underlying products to end customers (being independent third parties).

We consider that the numbers of purchase records and the corresponding distribution records as mentioned above are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism because (i) the purchase records and the corresponding distribution records covered purchase and corresponding distribution information for the first half of 2022, second half of 2022, first half of 2023 and second half of 2023; and (ii) the purpose of reviewing historical purchase records and the corresponding distribution records was to check the effectiveness of the internal control measures. Having considered the aforesaid and that the Group's procurement of pharmaceutical products from the CNPGC Group represented a majority proportion of the historical amounts of the existing Procurement Transactions for the nine months 30 September 2023, we are of the view that the samples are fair and representative.

According to the aforesaid information, we noticed the followings:

- (i) the Group recorded gross profit margins from the distribution with procurement of relevant products from the CNPGC Group being not lower than gross profit margins from the distribution with procurement of relevant products from the independent third parties. It indicated that the level of the procurement cost of relevant products from the CNPGC Group (i.e. the price of existing Procurement Transactions) in terms of the cost margins were no less favourable to the Group than that available from independent third parties; and
- (ii) for the procurement of similar/same products with same distribution prices, the procurement prices offered by the CNPGC Group was not higher than those offered by independent third parties.

We further discussed with the staff of Company's relevant departments (i.e. procurement department, finance department, legal department, quality department and operation department)/subsidiaries and understood that staffs of the Company's relevant departments/subsidiaries were aware of the internal control measures as mentioned above and would comply with such measures when conducting the Procurement Transactions.

Having considered our discussion with relevant staffs as mentioned above and our findings on the purchase and distribution records as mentioned above, we do not doubt the effectiveness of the internal control policies in respect of the fair pricing of the Procurement Transactions.

In light of the above, we are of the view that the pricing basis of the Procurement Transactions are fair and reasonable.

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### Proposed annual caps

The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2022 and the nine months ended 30 September 2023 with existing annual caps; and (ii) proposed annual caps of the Procurement Transactions for the three years ending 31 December 2026 (the “**Procurement Cap(s)**”):

	<b>For the year ended 31 December 2021</b> <i>(in RMB million)</i>	<b>For the year ended 31 December 2022</b> <i>(in RMB million)</i>	<b>For the year ending 31 December 2023</b> <i>(in RMB million)</i>
Historical transaction amounts	7,969	8,093	6,855 <i>(Note 1)</i>
Existing annual caps	7,000	10,600	12,200
Utilisation rate	113.8% <i>(Note 2)</i>	76.3%	Undetermined
	<b>For the year ending 31 December 2024</b> <b>(“FY2024”)</b> <i>(in RMB million)</i>	<b>For the year ending 31 December 2025</b> <b>(“FY2025”)</b> <i>(in RMB million)</i>	<b>For the year ending 31 December 2026</b> <b>(“FY2026”)</b> <i>(in RMB million)</i>
Procurement Caps	12,500	14,900	17,700

*Note 1:* The figure was for the nine months ended 30 September 2023.

*Note 2:* The utilization rate was over 100% due to the ratification of historical transaction amount for FY2021 as stated in the Company’s circular dated 5 May 2022.

With reference to the Board Letter, the Procurement Caps were determined after taking into consideration various factors, details of which are set out under the section headed “Basis of determination of the annual caps” of the Board Letter.

### **Procurement Cap for FY2024**

Upon our request, we obtained from the Company a detailed calculation for the Procurement Caps for the three years ending 31 December 2026 (the “**Procurement Caps Calculation**”). Based on the Procurement Caps Calculation, the Procurement Cap for FY2024 were calculated based on (i) the estimated transaction amounts for FY2023 (the “**2023 Estimated Procurement Amount**”) (i.e. approximately RMB10,013 million); (ii) the estimated increase rate of approximately 19% (the “**Estimated Procurement Increase Rate**”); and (iii) a buffer of 5%.

#### *(i) 2023 Estimated Procurement Amount*

We noted from the Procurement Caps Calculation that the 2023 Estimated Procurement Amount was calculated by dividing the actual procurement transaction amount from CNPGC Group in respect of the existing Procurement Transactions for 1H2023 by the average

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proportion rate of actual procurement transaction amount from CNPGC Group in respect of the existing Procurement Transactions in first half of the year to the whole year for the six years ended 31 December 2022 (the “**Average Proportion Rate of Procurement**”).

Upon our request, the Directors provided us with a breakdown, which contains the actual procurement transaction amount from CNPGC Group in respect of the existing Procurement Transactions for the first half and second half of each of the six years ended 31 December 2022. Based on the aforesaid historical amounts, the proportion rate are as follows:

	2017	2018	2019	2020	2021	2022
Proportion rate of procurement transaction amount for first half year to the full year	44%	49%	49%	40%	46%	45%
Average			<b>46%</b>			

We noted from the above table that the average proportion rate of actual procurement transaction amount from CNPGC Group in respect of the existing Procurement Transactions in first half of the year to the whole year for the six years ended 31 December 2022 equals to the Average Proportion Rate of Procurement. Hence, we consider the 2023 Estimated Procurement Amount to be justifiable.

(ii) *Estimated Procurement Increase Rate*

According to the Company’s previous annual reports, the historical procurement transaction amount from CNPGC Group in respect of the existing Procurement Transactions for each of the six years ended 31 December 2022 were RMB3,400 million, RMB4,448 million, RMB5,079 million, RMB5,641 million, RMB7,969 million and RMB8,093 million respectively, representing a compound annual growth rate (“**CAGR**”) of approximately 19%, which equals to the Estimated Procurement Increase Rate. We also noted that the Group recorded substantial increases of existing Procurement Transactions before COVID-19, evidenced by a substantial increase of approximately 14% from 2018 to 2019. Hence, we consider the Estimated Procurement Increase Rate to be justifiable.

(iii) *Buffers*

As mentioned above, when determining the Procurement Cap for FY2024, buffers of 5% were applied 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 selling prices of relevant products during FY2024.

Having considered the above factors and that (i) the possible further unexpected increase in transaction volume amount; and (ii) we noted from other Hong Kong listed companies’ circulars regarding continuing connected transactions that the incorporation of buffers of 10% in the proposed annual caps are common among companies listed on the Stock Exchange, we are of the view that the buffers are acceptable.

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In light of the above factors, we consider that the Procurement Cap for FY2024 to be fair and reasonable.

### *Procurement Caps for FY2025 and FY2026*

According to the table above, the increase rate of the Procurement Caps for both FY2025 and FY2026 is approximately 19%, which equals to the Estimated Procurement Increase Rate.

Having considered the above, we are of the view that the Procurement Caps for FY2025 and FY2026 are fair and reasonable.

Shareholders should note that as the Procurement Caps are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of cost/expense to be incurred from the Procurement Transactions. Consequently, we express no opinion as to how closely the actual cost/expense to be incurred from the Procurement Transactions will correspond with the Procurement Caps.

Having considered the above, including the principal terms of the Procurement Transactions contemplated under the 2023 Procurement Framework Agreement and the Procurement Caps, we are of the view that the terms of the Procurement Transactions are fair and reasonable.

## **B. THE SALES TRANSACTIONS**

### **Principle terms of the Sales Transactions**

Set out below are the key terms of Sales Transactions, details of which are set out under the section headed “2023 Sales Framework Agreement” of the Board Letter.

<b>Date:</b>	9 November 2023
<b>Parties:</b>	(i) the Company (ii) the CNPGC
<b>Term of the Agreement:</b>	The term will be three years from 1 January 2024 to 31 December 2026, subject to the approval by the Independent Shareholders. Upon its expiry, the agreement will, subject to compliance with the relevant laws and regulations and the Hong Kong Listing Rules, be extended or renewed with the consent of the parties.
<b>Major Terms and Conditions:</b>	Pursuant to the 2023 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.

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The transactions under the 2023 Sales Framework Agreement shall follow the principle of fairness, and the terms and conditions of the transactions, including but not limited to the price, shall be conducted on normal commercial terms or better and the quality and conditions of the same or similar products shall be no less favourable than those purchased by independent third parties from the Group or by the CNPGC Group from independent third parties.

The 2023 Sales Framework Agreement is non-exclusive, and the Group is entitled to sell relevant products to any other third parties.

The Group may, from time to time, enter into specific agreement with the CNPGC Group to specify the details such as product requirements, scope of services, delivery term, transaction amount and other specifications, provided that the principles and terms in the 2023 Sales Framework Agreement must be followed.

### *Pricing policy*

With reference to the Board Letter, 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 2023 Sales Framework Agreement will be determined on an arm's length basis between the parties and after going through all necessary internal review and approval procedures, having mainly taken into account (i) the procurement costs (including products costs, cost of capital, logistic cost and others) for the relevant products purchased by the Group; and (ii) the profit level of the Group, where such profit level refers to the gross profit margin of the Group's sales to the CNPGC Group under the 2023 Sales Framework Agreement after deducting the procurement cost from upstream suppliers and distribution cost and should be comparable to the profit level of the Group that would be achieved if the relevant or similar products were sold to independent third parties under the same or similar business model.

With reference to the Board Letter, to ensure the Company's conformity with the above pricing policy from time to time, the Company has adopted and would continue to strengthen a series of internal control policies for its daily operation. Details of the internal control policies for fair pricing of the Sales Transactions are set out under the subsection headed "Especially for the 2023 Sales Framework Agreement" under the section headed "V. MEASURES OF INTERNAL CONTROL" of the Board Letter. As there will be internal review and approval procedures before selling products, we consider that the effective implementation of the internal control policies would help to ensure fair pricing of the Sales Transactions according to the pricing policies.

For our due diligence purpose, we obtained from the Company 18 contracts in total entered into between the Group and (i) CNPGC Group; and (ii) independent third parties from 2022 to 2023 in respect of the sales of various pharmaceutical products by the Group.

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We consider that the numbers of individual sales contracts as mentioned above are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism because (i) the sales records covered sales information for the first half of 2022, second half of 2022, and first half of 2023, second half of 2023; (ii) the purpose of reviewing historical individual contracts was to check the effectiveness of the internal control measures. Having considered the aforesaid and that the Group's sales of pharmaceutical products from the CNPGC Group represented a majority proportion of the historical amounts of the existing Sales Transactions for the nine months 30 September 2023, we are of the view that the samples are fair and representative.

According to the individual contracts, the unit prices of the same pharmaceutical products charged by the Group to the CNPGC Group were not lower than those charged by the Group to the independent third parties.

We further discussed with the staff of Company's relevant departments (i.e. procurement department, finance department, legal and compliance department, quality department and operation department)/ subsidiaries and understood that staffs of the Company's relevant departments/subsidiaries were aware of the internal control measures as mentioned above and would comply with such measures when conducting the Sales Transactions.

Having considered our discussion with relevant staffs as mentioned above and our findings on the sales contracts as mentioned above, we do not doubt the effectiveness of the internal control policies in respect of the fair pricing of the Sales Transactions.

In light of the above, we are of the view that the pricing basis of the Sales Transactions are fair and reasonable.

### Proposed annual caps

The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2022 and the nine months ended 30 September 2023 with existing annual caps; and (ii) proposed annual caps of the Sales Transactions for the three years ending 31 December 2026 (the "Sales Cap(s)"):

	<b>For the year ended 31 December 2021</b> <i>(in RMB million)</i>	<b>For the year ended 31 December 2022</b> <i>(in RMB million)</i>	<b>For the year ending 31 December 2023</b> <i>(in RMB million)</i>
Historical transaction amounts	2,626	2,470	1,613 <i>(Note 1)</i>
Existing annual caps	1,800	4,200	5,500
Utilisation rate	145.9% <i>(Note 2)</i>	58.8%	Undetermined

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	For the year ending 31 December 2024 <i>(in RMB million)</i>	For the year ending 31 December 2025 <i>(in RMB million)</i>	For the year ending 31 December 2026 <i>(in RMB million)</i>
Sales Caps	3,200	4,000	4,900

*Note 1:* The figure was for the nine months ended 30 September 2023.

*Note 2:* The utilization rate was over 100% due to the ratification of historical transaction amount for FY2021 as stated in the Company's circular dated 5 May 2022.

With reference to the Board Letter, the Sales Caps were determined after taking into consideration various factors, details of which are set out under the section headed "Basis of determination of the annual caps" of the Board Letter.

### *Sales Cap for FY2024*

Upon our request, we obtained from the Company a detailed calculation for the Sales Caps for the three years ending 31 December 2026 (the "**Sales Caps Calculation**"). Based on the Sales Caps Calculation, the Sales Cap for FY2024 were calculated based on (i) the estimated transaction amounts for FY2023 (the "**2023 Estimated Sales Amount**") (i.e. approximately RMB2,488 million); (ii) the estimated increase rate of approximately 23% (the "**Estimated Sales Increase Rate**"); (iii) a buffer of 5%.

#### *(i) 2023 Estimated Sales Amount*

In respect of the 2023 Estimated Sales Amount, we noted from the Sales Caps Calculation that the 2023 Estimated Sales Amount was calculated by dividing the actual sales transaction amount to CNPGC Group in respect of the existing Sales Transactions for 1H2023 by the average proportion rate of actual sales transaction amount to CNPGC Group in respect of the existing Sales Transactions in first half of the year to the whole year for the six years ended 31 December 2022 (the "**Average Proportion Rate of Sales**").

Upon our request, the Directors provided us with a breakdown, which contains the actual sales transaction amount to CNPGC Group in respect of the existing Sales Transactions for the first half and second half of each of the six years ended 31 December 2022. Based on the aforesaid historical amounts, the proportion rate are as follows:

	2017	2018	2019	2020	2021	2022
Proportion rate of sales transaction amount for first half year to the full year	35%	35%	47%	42%	41%	49%
Average	<b>42%</b>					

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We noted from the above table that the average proportion rate of actual sales transaction amount to CNPGC Group in respect of the existing Sales Transactions in first half of the year to the whole year for the six years ended 31 December 2022 equals to the Average Proportion Rate of Sales. Hence, we consider the 2023 Estimated Sales Amount to be justifiable.

(ii) *Estimated Sales Increase Rate*

According to the Company's annual reports for the six years ended 31 December 2022, we noted that actual sales transaction amount to CNPGC Group in respect of the existing Sales Transactions for each of the six years ended 31 December 2022 were RMB897 million, RMB911 million, RMB1,114 million, RMB1,765 million, RMB2,626 million and RMB2,470 million respectively, representing a CAGR of approximately 23%, which equals to the Estimated Sales Increase Rate. We also noted that the Group recorded substantial increase of existing Sales Transactions before COVID-19, evidenced by a substantial increase of approximately 22% from 2018 to 2019. Hence, we consider the Estimated Sales Increase Rate to be justifiable.

(iii) *Buffers*

As mentioned above, when determining the Sales Cap for FY2024, buffers of 5% were applied 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 selling prices of relevant products during FY2024.

Having considered the above factors and that (i) the possible further unexpected increase in transaction volume amount; and (ii) we noted from other Hong Kong listed companies' circulars regarding continuing connected transactions that the incorporation of buffers of 10% in the proposed annual caps are common among companies listed on the Stock Exchange, we are of the view that the buffers are acceptable.

In light of the above factors, we consider that the Sales Cap for FY2024 to be fair and reasonable.

*Sales Caps for FY2025 and FY2026*

According to the table above, the Sales Cap increased by approximately 25% from FY2024 to FY2025 and approximately 23% from FY2025 to FY2026.

Having considered that (i) the increase of approximately 25% for the Sales Cap from FY2024 to FY2025 does not deviate much from the Estimated Sales Increase Rate; and (ii) the increase of approximately 23% for the Sales Cap from FY2025 to FY2026 equals to the Estimated Sales Increase Rate, we are of the view that the Sales Caps for FY2025 and FY2026 are fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Shareholders should note that as the Sales Caps are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of cost/expense to be incurred from the Sales Transactions. Consequently, we express no opinion as to how closely the actual cost/expense to be incurred from the Sales Transactions will correspond with the Sales Caps.

Having considered the above, including the principal terms of the Sales Transactions contemplated under the 2023 Sales Framework Agreement and the Sales Caps, we are of the view that the terms of the Sales Transactions are fair and reasonable.

### C. THE DEPOSIT SERVICES

Set out below are the key terms of Deposit Services, details of which are set out under the section headed “2023 Financial Services Framework Agreement” of the Board Letter.

<b>Date:</b>	9 November 2023
<b>Parties:</b>	(i) the Company  (ii) the Finance Company
<b>Term of the agreement:</b>	The term will be three years from 1 January 2024 to 31 December 2026, subject to the approval by the Independent Shareholders. Upon its expiry, the agreement will, subject to compliance with the relevant laws and regulations and the Hong Kong Listing Rules, be extended or renewed with the consent of the parties.
<b>Nature of the Transactions:</b>	Pursuant to the 2023 Financial Services Framework Agreement, the Finance Company agrees to provide, among other things, deposit services.
<b>Pricing policy of Deposit Services:</b>	In determining the interest rates for the deposits to be placed by the Group with the Finance Company, the Group shall obtain the quotation on interest rates from the Finance Company, and make reference to the interest rates of the same type of deposits quoted by not less than three major commercial banks in the PRC (the “ <b>Reference Deposit Rates</b> ”). The interest rate applicable to the Group for its deposits with the Finance Company shall, subject to compliance with requirements on interest rates prescribed by the PBOC for such type of deposits, be the higher of (i) the maximum Reference Deposit Rates; and (ii) the interest rates offered by the Finance Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We further searched over the Stock Exchange's website to identify similar deposit arrangement (i.e. listed issuer group deposit fund in group finance company (a connected person of the listed issuer) and constitutes notifiable transaction and continuing connected transaction). We noted that the pricing policy of the Deposit Service is generally in line with the pricing policies of the deposit services among the above listed issuer group and their group finance companies.

With reference to the Board Letter, to ensure the Company's conformity with the above pricing policy from time to time, the Company has adopted and would continue to strengthen a series of internal control policies for its daily operation. Details of the internal control policies for fair pricing of the Deposit Services are set out under the subsection headed "2. 2023 Financial Services Framework Agreement" under the section headed "V. MEASURES OF INTERNAL CONTROL" of the Board Letter. As there will be interest rate comparison procedure before placing deposits, we consider that the effective implementation of the internal control policies would help to ensure fair pricing of the Deposit Services according to the pricing policies.

For our due diligence purpose, we obtained 36 deposit records in total from December 2021 to September 2023 from the Company as follows:

- (i) the Group placed deposits in two independent commercial banks and the Finance Company;  
and
- (ii) other members of the CNPGC Group (excluding the Group) placed deposits in the Finance Company.

As the deposit records showed relevant information for the period from the effective date of the 2020 Financial Services Framework Agreement to the latest quarter prior to the date of the 2023 Financial Services Framework Agreement, we considered the aforementioned deposit records which we obtained from the Company to be fair and representative. We noted from the deposit records that the deposit rates as shown in the deposit records are in line with the aforesaid requirements under the 2020 Financial Services Framework Agreement. We further discussed with the staff of Company's relevant departments (i.e. Capital Management Department) and understood that staffs of the Company's relevant departments/subsidiaries were aware of the internal control measures as mentioned above and would comply with such measures when conducting the Deposit Services.

Having considered our discussion with the Company's relevant staffs as mentioned above and our findings on the deposit records as mentioned above, we do not doubt the effectiveness of the internal control policies in respect of the fair pricing of the Deposit Services.

In light of the above, we are of the view that the pricing basis of the Deposit Services are fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### The proposed annual caps

Set out below are (i) the historical maximum daily balance of the deposits (including accrued interest) for the two years ended 31 December 2022 and the nine months ended 30 September 2023 with existing annual caps; and (ii) the proposed annual caps of the Deposit Service for the three years ending 31 December 2026 (the “**Deposit Cap(s)**”):

<b>Historical transaction amounts</b>	<b>For the year ended 31 December 2021 <i>(in RMB million)</i></b>	<b>For the year ended 31 December 2022 <i>(in RMB million)</i></b>	<b>For the year ending 31 December 2023 <i>(in RMB million)</i></b>
Actual maximum daily balance of the deposits	2,419	2,410	2,410 <i>(Note)</i>
Maximum daily balance of the deposits	2,420	2,420	2,420
Utilisation rate	100.0	99.6	99.6
	<b>For the year ending 31 December 2024 <i>(in RMB million)</i></b>	<b>For the year ending 31 December 2025 <i>(in RMB million)</i></b>	<b>For the year ending 31 December 2026 <i>(in RMB million)</i></b>
Deposit Caps	5,500	5,500	5,500

*Note:* The figure is for the nine months ended 30 September 2023.

With reference to the Board Letter, the Deposit Caps were determined after taking into consideration various factors, details of which are set out under the section headed “Basis of determination of the annual caps” of the Board Letter.

According to the above table, we noted that the relevant utilisation rates of the maximum daily balance of the deposits were approximately 100.0% and 99.6% for each of the two years ended 31 December 2022 and approximately 99.6% for the year ending 31 December 2023, based on actual maximum daily balance of the deposits for the nine months ended 30 September 2023. The utilisation rates were at high levels.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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To assess the fairness and reasonableness of the Deposit Caps for the three years ending 31 December 2026, we conducted the following analyses:

- As at 30 September 2023, the Group's cash at bank and on hand amounted to approximately RMB44.3 billion, of which cash and cash equivalents amounted to approximately RMB33.3 billion. The Group's cash at bank and on hand/cash and cash equivalents was much more than the Deposit Caps, indicating the Group's possible demand of deposit services to be provided by commercial banks and the Finance Company.
- According to the table above, the Deposits Caps of RMB5,500 million represented an increase of RMB3,080 million as compared to the existing maximum daily balance of the deposits under the existing financial services framework agreement with the Finance Company on 18 December 2020 (the "**2020 December FS Framework Agreement**").

To assess the reasonableness of the aforesaid increases, we summarised key financial information of the Group as follows:

- The Group's cash at bank and on hand as at 30 September 2023 (approximately RMB44.3 billion) increased by approximately RMB4.8 billion or approximately 12.2% as compared to that as at 30 September 2020 (approximately RMB39.4 billion) (being the latest available financial information when entering into the 2020 December FS Framework Agreement).
- In addition, there was also a substantial increase in the Group's revenue of approximately 29.8% or approximately RMB126.9 billion for the year ended 31 December 2022 (being the latest full financial year before entering into the 2023 Financial Services Framework Agreement) as compared to that for the year ended 31 December 2019 (being the latest full financial year before entering into the 2020 December FS Framework Agreement).

Despite that the Deposit Caps for the three years ending 31 December 2026 represented a significant increase as compared to existing maximum daily balance of the deposits of RMB2,420 million during the term of 2020 Financial Services Framework Agreement, having considered that there had been a substantial improvement in the Group's cash at bank and on hand (i.e. approximately RMB4.8 billion as at 30 September 2023 as compared to 30 September 2020) and revenue (i.e. approximately RMB126.9 billion for FY2022 as compared to that for FY2019), we are of the view that the aforesaid increases are justifiable;

- We further summarised historical maximum daily balance of deposit services with the Finance Company for latest six full financial years, together with the maximum cash and cash equivalents of the Group in such year (based on quarterly end figures) of the corresponding periods.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	2022	2021	2020	2019	2018	2017
Historical maximum daily balance of the deposits (including accrued interest) (A) <i>(Approximately RMB'million)</i>	2,410	2,419	3,466	3,458	3,483	3,483
Maximum cash and cash equivalents in a year (B) <i>(Note: based on quarterly end figures)</i> <i>(Approximately RMB'million)</i>	55,222	43,529	50,178	39,192	40,299	29,011
(A)/(B) <i>(Note: figure for A was adopted in current year and figure for B was adopted in previous year)</i> <b>(the "Percentage Ratios")</b> <i>(Approximate %)</i>	6	5	9	9	12	14
Average of the Percentage Ratios <i>(Approximate %)</i>			9			
Median of the Percentage Ratios <i>(Approximate %)</i>			9			

The Deposit Caps for the three years ending 31 December 2026 (i.e. RMB5,500 million) represented approximately 10% to the maximum cash and cash equivalents of the Group in 2022 (based on quarterly end figures). The aforesaid figure of approximately 10% fell within the range of Percentage Ratios during the latest six full financial years and close to the average and median of the aforesaid range.

- As advised by the Directors, it is difficult to forecast the total cash level for whole period for the three years ending 31 December 2026. Nevertheless, should there be any substantial increase in total cash of the Group, the Group may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction to revise the Deposit Caps.

The deposit services with proposed annual caps of RMB5,000 million for the three years ending 31 December 2023 under the 2020 October FS Framework Agreement was not approved by the then independent shareholders of the Company. However, as stated in the Board Letter, the Company was unable to obtain any specific dissenting opinions.

Therefore, having considered the following reasons, including:

- that the fairness and reasonableness of the Deposit Services (including proposed annual caps) has no relevancy on the poll results from the shareholders, but directly links to the demand of Deposit Services of the Group;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- that the proposed Deposit Caps were set by the Directors, after considering various factors as set out in the section headed “Basis of determination of the annual caps” in the Board Letter, including, historical utilisation rates, business development of the Group, financial position of the Group, etc.; and
- our analyses as mentioned above,

we are of the view that the Deposit Caps for the three years ending 31 December 2026 are fair and reasonable.

Shareholders should note that as the Deposit Caps are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of deposit to be placed under the Deposit Services. Consequently, we express no opinion as to how closely the actual deposit to be placed under the Deposit Transactions will correspond with the Deposit Caps.

Having considered the above, including the principal terms of the Deposit Services contemplated under the 2023 Financial Services Framework Agreement and the Deposit Caps, we are of the view that the terms of the Deposit Services are fair and reasonable.

### **Hong Kong Listing Rules implication**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values/maximum value of the Transactions must be restricted by their respective proposed annual caps for the period concerned under the relevant framework agreements; (ii) the terms of the Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors’ annual review on the terms of Transactions must be included in the Company’s subsequent published annual reports.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer’s group if the transactions involve the provision of goods or services by the listed issuer’s group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps.

In the event that the total amounts of the Transactions are anticipated to exceed the annual caps, or that there is any proposed material amendment to the terms of the Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Transactions (in particular, the internal control measures for monitoring annual caps were enhanced) and thus the interest of the Independent Shareholders would be safeguarded.

### RECOMMENDATION

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

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

*Note:* Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Directors, Supervisors and the Chief Executive of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, Supervisors or the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements in the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Hong Kong Listing Rules.

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the total number of H Shares in issue (%)	Long position/ short position/ shares available for lending
Mr. Yu Qingming	H Shares	Beneficial owner	100,000	0.00	0.01	Long position
Mr. Liu Yong	H Shares	Beneficial owner	59,009	0.00	0.00	Long position

*Note:*

The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

The above mentioned “approximate percentage to the total number of shares of the Company” is calculated based on the number of total issued shares of the Company of 3,120,656,191 as at the Latest Practicable Date, and the term of “approximate percentage to the total number of H Shares in issue” is calculated based on the number of total issued H Shares of 1,341,810,740 as at the Latest Practicable Date.

### Substantial Shareholders

As at the Latest Practicable Date, to the best knowledge of the Directors, the interests or short positions of the following persons (other than the Directors, Supervisors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position
CNPGC	Domestic Shares	Beneficial owner	207,289,498	6.64	11.65	Long position
	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 2)</i>	50.36	88.35	Long position
Sinopharm Investment	Domestic Shares	Beneficial owner	1,571,555,953 <i>(Notes 1 and 2)</i>	50.36	88.35	Long position
Fosun Pharma	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 3)</i>	50.36	88.35	Long position
Fosun High Technology	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 4)</i>	50.36	88.35	Long position
Fosun International	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 5)</i>	50.36	88.35	Long position
Fosun Holdings	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 6)</i>	50.36	88.35	Long position
Fosun International Holdings	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 7)</i>	50.36	88.35	Long position
Mr. Guo Guangchang	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 8)</i>	50.36	88.35	Long position
Citigroup Inc.	H Shares	Interest of controlled corporation	2,898,015	0.09	0.22	Long position
			2,259,415	0.07	0.17	Short position
		Approved lending agent <i>(Note 9)</i>	77,335,857	2.48	5.76	Long position
BlackRock, Inc.	H Shares	Interest of controlled corporation <i>(Note 10)</i>	92,897,580	2.98	6.92	Long position
			2,611,600	0.08	0.19	Short position
FMR LLC	H Shares	Interest of controlled corporation <i>(Note 11)</i>	160,276,364	5.14	11.94	Long position
Lazard Asset Management LLC	H Shares	Investment manager <i>(Note 12)</i>	93,990,820	3.01	7.00	Long position

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position
JP Morgan Chase & Co.	H Shares	Interest of controlled corporation	13,148,726	0.42	0.98	Long position
			10,078,633	0.32	0.75	Short position
		Investment manager	41,004,900	1.31	3.06	Long position
		Person having security interest in shares	136,236	0.00	0.01	Long position
		Trustee	8,435	0.00	0.00	Long position
		Approved lending agent (Note 13)	26,061,588	0.84	1.94	Long position

*Notes:*

The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

- (1) Such 1,571,555,953 Domestic Shares belong to the same batch of shares.
- (2) CNPGC is interested in 1,571,555,953 Domestic Shares indirectly through Sinopharm Industrial Investment Co., Ltd. (“**Sinopharm Investment**”). As CNPGC owns 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO.
- (3) Fosun Pharma is the beneficial owner of 49% equity interest in Sinopharm Investment and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (4) Fosun High Technology is the beneficial owner of 38.52% equity interest in Fosun Pharma and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (5) Fosun International is the beneficial owner of 100% equity interest in Fosun High Technology and 0.22% equity interest in Fosun Pharma and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (6) Fosun Holdings is the beneficial owner of 73.67% equity interest in Fosun International and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (7) Fosun International Holdings is the beneficial owner of 100% equity interest in Fosun Holdings and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (8) Mr. Guo Guangchang is the beneficial owner of 85.29% equity interest in Fosun International Holdings and 0.004% equity interest in Fosun Pharma and, therefore, Mr. Guo Guangchang is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (9) Citigroup Inc. is interested in an aggregate of 80,233,872 H Shares of the Company in long position (including 77,335,857 H Shares available for lending) and 2,259,415 H Shares of the Company in short position.

- (10) BlackRock, Inc. is interested in long positions of 92,897,580 H Shares of the Company and short positions of 2,611,600 H Shares of the Company.
- (11) FMR LLC is interested in an aggregate of long positions of 160,276,364 H Shares of the Company.
- (12) Lazard Asset Management LLC is interested in an aggregate of long positions of 93,990,820 H Shares of the Company.
- (13) JP Morgan Chase & Co. is interested in an aggregate of long positions of 80,359,885 H Shares (of which 26,061,588 H Shares are shares available for lending) and short positions of 10,078,633 H Shares of the Company.
- (14) The above mentioned “approximate percentage to the total number of shares of the Company” was calculated based on the number of total issued shares of the Company of 3,120,656,191 as at the Latest Practicable Date. In respect of H Shares, the term of “approximate percentage to the relevant class of shares” was calculated based on the number of total issued H Shares of 1,341,810,740 as at the Latest Practicable Date. In respect of Domestic Shares, the term of “approximate percentage to the relevant class of shares” was calculated based on number of total issued Domestic Shares of 1,778,845,451 as at the Latest Practicable Date.

Save as disclosed above, to the best knowledge of the Directors, as at the Latest Practicable Date, no person (other than the Directors, Supervisors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

### **3. MATERIAL ADVERSE CHANGES**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up.

### **4. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors, Supervisors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### **5. DIRECTORS’ AND SUPERVISORS’ INTEREST IN ASSETS OR CONTRACTS**

As at the Latest Practicable Date, none of the Directors or the Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up or were proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors, Supervisors or their respective associates was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

**6. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or the Supervisors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

**7. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, the following Directors and the Supervisors were in the employment of those companies which had interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of Director or Supervisor	CNPGC	Positions held in specific companies			
		Sinopharm Investment	Fosun Pharma	Fosun High Technology	Fosun International
Mr. Yu Qingming		Director and General Manager			
Mr. Liu Yong		Director			
Mr. Chen Qiyu		Vice Chairman	Non-executive Director	Chairman	Executive Director and Co-chief Executive Officer
Mr. Hu Jianwei	Member of the Party Committee, Deputy General Manager and General Counsel				
Mr. Deng Jindong	Deputy General Manager	Chairman			
Mr. Wang Kan	Officer of Investment Management Department and Deputy Officer of Policy Study Office				
Mr. Wang Peng	Officer of Finance Department				
Mr. Wen Deyong		Director	Executive Director and Chief Executive Officer		
Mr. Li Dongjiu			Senior Vice President		
Ms. Feng Rongli			Senior Vice President		

**8. EXPERT'S QUALIFICATION AND CONSENT**

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

The following is the qualification of Gram Capital who has given its opinions or advices which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Gram Capital	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

**9. EXPERT'S INTERESTS**

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group since 31 December 2022, being the date to which the latest audited financial statements of the Group were made up, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, and was not beneficially interested in the shares of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**10. MISCELLANEOUS**

- (i) The registered office of the Company is located at the 1st Floor, No. 385, East Longhua Road, Huangpu District, Shanghai 200023, the PRC.
- (ii) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (iii) The company secretary of the Company is Mr. Wu Yijian.

**11. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Company (sinopharm.todayir.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) for a period of 14 days from the date of this circular:

- (i) 2023 Procurement Framework Agreement;
- (ii) 2023 Sales Framework Agreement; and
- (iii) 2023 Financial Services Framework Agreement.

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## NOTICE OF EGM

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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)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Sinopharm Group Co. Ltd. (the “Company”) will be held at 9:00 a.m. on Wednesday, 20 December 2023 at Meeting Room 1401, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the People's Republic of China (the “PRC”), for the purpose of considering, and if thought fit, passing the following resolutions:

#### Ordinary Resolutions

1. “**THAT** the procurement framework agreement entered into by the Company and China National Pharmaceutical Group Corporation on 9 November 2023 (the “**2023 Procurement Framework Agreement**”) and the proposed annual caps for the continuing connected transactions contemplated thereunder, be and are hereby approved and confirmed; and **THAT** any one director of the Company be and is hereby authorised to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he/she may consider necessary or desirable for the purpose of giving effect to the 2023 Procurement Framework Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”
2. “**THAT** the sales framework agreement entered into by the Company and China National Pharmaceutical Group Corporation on 9 November 2023 (the “**2023 Sales Framework Agreement**”) and the proposed annual caps for the continuing connected transactions contemplated thereunder, be and are hereby approved and confirmed; and **THAT** any one director of the Company be and is hereby authorised to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he/she may consider necessary or desirable for the purpose of giving effect to the 2023 Sales Framework Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

\* 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.”.

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## NOTICE OF EGM

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3. “**THAT** the financial services framework agreement entered into by the Company and Sinopharm Group Finance Co., Ltd. on 9 November 2023 (the “**2023 Financial Services Framework Agreement**”) and the proposed maximum daily balances of the Deposit Services contemplated thereunder, be and are hereby approved and confirmed; and **THAT** any one director of the Company be and is hereby authorised to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he/she may consider necessary or desirable for the purpose of giving effect to the 2023 Financial Services Framework Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

### Special Resolution

4. “**THAT** the amendments to the articles of association of the Company (the “**Articles of Association**”) as set out in the circular of the Company dated 5 December 2023 be and are hereby approved and confirmed; and **THAT** any one director of the Company be and is hereby authorised to handle the approval and filing procedures with relevant Administration for Market Regulation involved in such amendments to the Articles of Association on behalf of the Company, and to make wording adjustments to such amendments to the Articles of Association according to the opinions of Administration for Market Regulation (if applicable).”

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

Shanghai, the PRC  
5 December 2023

*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. Deng Jindong, Mr. Wang Kan, Mr. Wang Peng, Mr. Wen Deyong, Mr. Li Dongjiu and Ms. Feng Rongli; and the independent non-executive directors of the Company are Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung, Mr. Yu Weifeng and Mr. Shi Shenghao.*

*Notes:*

1. In accordance with the Articles of Association, for the purpose of holding the EGM, the register of members of the Company will be closed from Friday, 15 December 2023 to Wednesday, 20 December 2023 (both days inclusive), during which no transfer of shares of the Company can be registered.

In order to be qualified to attend and vote at the EGM, for holders of H Shares, all transfer documents accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as practicable, and in any event no later than 4:30 p.m. on Thursday, 14 December 2023.

Shareholders whose names appear on the register of members on Friday, 15 December 2023 are entitled to attend and vote at the EGM.

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## NOTICE OF EGM

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2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalves. A proxy need not be a member of the Company.
3. The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder is a legal person, that instrument must be executed either under its seal or under the hand of its director or other attorney duly authorised to sign the same.
4. In order to be valid, the proxy form must be deposited, for the holders of H Shares, to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or for the holders of Domestic Shares, to the Board Office of the Company in the PRC not less than 24 hours before the time appointed for holding the EGM or any adjourned thereof. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude shareholders from attending and voting in person at the EGM or any adjourned meetings should you so wish.
5. Individual shareholders shall produce their identity documents and supporting documents in respect of the shares of the Company held when attending the EGM. If corporate shareholders appoint authorised representative to attend the EGM, the authorised representative shall produce his/her identity documents and a notarially certified copy of the relevant authorisation instrument signed by the board of directors or other authorised parties of the corporate shareholders or other notarially certified documents allowed by the Company. Proxies shall produce their identity documents and the proxy form signed by the shareholders or their attorney when attending the EGM.
6. The EGM is expected to take for less than half a day. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.
7. Contact details of the Board Office of the Company in the PRC are as follows:

Address: Room 1210, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai 200023, the PRC

Telephone No.: (86 21) 2305 2147

Fax No.: (86 21) 2305 2146