
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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国药集团
SINOPHARM

CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED
中國中藥控股有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE NEW MASTER SUPPLY AGREEMENT
AND
NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

Financial adviser to the Company



SOMERLEY CAPITAL LIMITED

**Independent Financial Adviser to the Independent Board Committee and
Independent Shareholders of the Company**



Gram Capital Limited
嘉林資本有限公司

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

A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee is set out on page 12 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 21 of this circular.

A notice convening the EGM to be held at Conference Room, 4th floor, Winteam Plaza, 6 Kuiqi Second Road, Chancheng District, Foshan City, Guangdong Province, China, at 2:30 p.m., on Wednesday, 4 January 2023 is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the accompanying form of proxy for use at the EGM in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and returning of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so desire.

15 December 2022

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CNPGC”	China National Pharmaceutical Group Co., Ltd. (中國醫藥集團有限公司), a state-owned enterprise established in the PRC
“CNPGC Group”	CNPGC and its subsidiaries
“Company”	China Traditional Chinese Medicine Holdings Co. Limited (中國中藥控股有限公司), a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 570)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps)
“Existing Master Supply Agreement”	the existing master supply agreement dated 20 November 2019 entered into between the Company and CNPGC in respect of the sale of the Products by the Group to the CNPGC Group
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) of the regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong, all being independent non-executive Directors, established for the purpose of giving a recommendation to the Independent Shareholders on the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps)
“Independent Shareholders”	the Shareholders other than CNPGC and its associates
“Latest Practicable Date”	13 December 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Master Supply Agreement”	the master supply agreement dated 11 November 2022 entered into between the Company and CNPGC in respect of the Sales for the three years ending 31 December 2025
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Products”	various pharmaceutical products manufactured and supplied by the Group to the CNPGC Group
“Proposed Sales Caps”	the annual caps for the Sales under the New Master Supply Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“R&D”	Research and development
“Sales”	the sales of the Products to the CNPGC Group
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) in the share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Share(s)

DEFINITIONS

“Sinopharm Hongkong”	Sinopharm Group Hongkong Co., Limited (國藥集團香港有限公司), a company incorporated in Hong Kong with limited liability and the controlling Shareholder
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TCM”	traditional Chinese medicine
“%”	per cent

LETTER FROM THE BOARD



国药集团
SINOPHARM

CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED

中國中藥控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 570)

The Board of Directors:

Executive Directors:

Mr. CHEN Yinglong

Mr. CHENG Xueren

Mr. YANG Wenming

Registered office:

Room 1601, Emperor Group Centre

288 Hennessy Road

Wanchai

Hong Kong

Non-executive Directors:

Mr. YANG Shanhua (*resigned with effect from
19 November 2022*)

Ms. LI Ru

Mr. YANG Binghua

Mr. WANG Kan

Mr. MENG Qingxin (*appointed with effect from
19 November 2022*)

Mr. KUI Kaipin

Principle place of business in Hong Kong:

Room 1601, Emperor Group Centre

288 Hennessy Road

Wanchai

Hong Kong

Independent Non-executive Directors:

Mr. XIE Rong

Mr. YU Tze Shan Hailson

Mr. QIN Ling

Mr. LI Weidong

15 December 2022

To the Shareholders

Dear Sir or Madam,

LETTER FROM THE BOARD

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE NEW MASTER SUPPLY AGREEMENT

INTRODUCTION

Reference is made to the announcement of the Company dated 11 November 2022 in relation to among other things, the entering into of the New Master Supply Agreement, which governs the terms of the Sales for the three years ending 31 December 2025.

The purpose of this circular is to provide you with (i) further details of the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps); (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps); (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps); (iv) a notice of the EGM; and (v) other information in accordance with the requirements of the Listing Rules.

THE NEW MASTER SUPPLY AGREEMENT

Principal terms of the New Master Supply Agreement

- | | | |
|---------|---|---|
| Date | : | 11 November 2022 |
| Parties | : | (i) the Company; and
(ii) CNPGC |
| Subject | : | Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the Products to the CNPGC Group during the period from 1 January 2023 to 31 December 2025. The terms of the Sales shall adhere to the following principles:

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

(ii) the prices of the Products shall be determined based on the prevailing market prices. |

LETTER FROM THE BOARD

When determining the prevailing market prices of the Products, the Company will make reference to (i) the market price of products through enquiry from the hospitals and retail pharmacies (if applicable); and (ii) the costs of raw materials for manufacturing the Products.

Conditions precedent : The New Master Supply Agreement is conditional upon the fulfilment of the following conditions (if applicable):

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

None of the above conditions can be waived.

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

For the year ending 31 December		
2023	2024	2025
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1,750,000	2,100,000	2,500,000

Basis of determination of the Proposed Sales Caps

The Proposed Sales Caps for each of the years ending 31 December 2023, 2024 and 2025 are RMB1,750,000,000, RMB2,100,000,000 and RMB2,500,000,000, respectively.

The existing annual caps of the Sales for the three years ending 31 December 2022 and the historical transaction amounts under the Existing Master Supply Agreement for each of the two years ended 31 December 2020 and 2021 and for the eight months ended 31 August 2022 are as follows:

LETTER FROM THE BOARD

	For the year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Existing annual caps under the Existing Master Supply Agreement	1,200,000	1,450,000	1,700,000
Historical transaction amount under the Existing Master Supply Agreement	840,246	1,035,125	587,126 (Note)
Utilization rate	70.02%	71.39%	N/A

Note: For the eight months ended 31 August 2022

The Proposed Sales Caps were determined mainly by reference to: (i) the historical sales of the Products by the Group to the CNPGC Group; (ii) the expected increase in the demand of the Group's Products; and (iii) the expected increase in the sales of the Products to hospitals and retail drug stores attributable to the sales network of the CNPGC Group. In particular, the Directors have considered the followings:

- (i) The estimated transaction amount of Sales of approximately RMB1.3 billion for the year ending 31 December 2022 based on the historical transaction amount of Sales of approximately RMB1 billion for the year ended 31 December 2021 and a growth rate of approximately 23% with reference to the increase in historical transaction amount in the previous year;
- (ii) the estimated annual growth rate of approximately 20% for the demand of the Group's Products, which is determined after considering the historical growth rate of the Sales for the year ended 31 December 2021 as compared to that for the year ended 31 December 2020; and
- (iii) a buffer of approximately 10% to cover the unforeseen circumstances, for instance, an unexpected increase in the demand of the Products and other relevant factors, etc. for the transactions in 2023.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW MASTER SUPPLY AGREEMENT

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

The New Master Supply Agreement was entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the business opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is the only life-and health-oriented central enterprise directly under the State-owned Assets Supervision and Administration Commission of the State Council, with a whole healthcare industry chain covering R&D, manufacturing, logistics and distribution, retail chains, healthcare, engineering services, etc. Members of the CNPGC Group have been the customers of the Products since 1998. The CNPGC Group is a reliable

LETTER FROM THE BOARD

business partner of the Group which has a strong supply capacity and a well-established distribution network. The New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. In addition, as CNPGC Group is one of the largest pharmaceutical companies in the PRC, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC via the CNPGC Group as the Group's distributor. The Directors are not aware of any disadvantages in relation to the entering into the New Master Supply Agreement.

Based on the above, the Directors (including the independent non-executive Directors after considering the advice from the Independent Financial Adviser) are of the view that the terms of the New Master Supply Agreement and the transactions contemplated thereunder are fair and reasonable and the New Master Supply Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROLS

For the sale of Products to hospitals by way of tender (which represent the sale of finished drugs to hospitals), the Group will determine the tender price with reference to the price cap set by the provincial level tender offices. According to the pricing policy of the Group, the sales department may propose the terms of the Sales with reference to the sales amount, payment terms, distance of delivery and the business relationship with the customers. The responsible person of the relevant operating entity will review the terms of the Sales to ensure that it is in accordance with the Group's pricing policy.

For the sale of Products to pharmacies, distributors, manufacturers and hospitals (except the sale of finished drugs to hospitals), there is a pricing policy for the Products which are applicable to all customers (including the CNPGC Group and independent customers). The pricing policy is reviewed by the marketing department annually or more frequently if market condition changes materially. Based on the pricing policy, the Company will determine the price of the Products with reference to the base price which taken into account the manufacturing costs of the Products. The sales department may propose the terms of the Sales with reference to the sales amount, payment terms, distance of delivery and the business relationship with the customer according to the pricing policy of the Group. The responsible person of the relevant operating entity will review the terms of the Sales to ensure that it is in accordance with the Group's pricing policy.

Given that the Group's pricing policy is applicable to all customers (including the CNPGC Group and other independent customers), the Directors consider that the above internal control procedures can ensure that the terms offered to the CNPGC Group are no less favourable than the terms offered to other independent customers.

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

LETTER FROM THE BOARD

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

INFORMATION ON THE GROUP AND THE CNPGC GROUP

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

CNPGC is the only life-and health-oriented central enterprise directly under the State-owned Assets Supervision and Administration Commission of the State Council, with a whole healthcare industry chain covering R&D, manufacturing, logistics and distribution, retail chains, healthcare, engineering services, etc.

THE LISTING RULES IMPLICATIONS

Sinopharm Hongkong is the controlling Shareholder holding 1,634,705,642 Shares, representing approximately 32.46% of the total number of issued Shares as at the date of this circular. CNPGC is the parent company of Sinopharm Hongkong. As such, CNPGC is a connected person of the Company. The New Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios in respect of the Proposed Sales Caps is higher than 5%, the New Master Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

- (i) Mr. CHEN Yinglong is the Chairman and general manager of China National Traditional Chinese Medicine Co., Ltd.;
- (ii) Mr. CHENG Xueren is a director of China National Traditional Chinese Medicine Co., Ltd. and Chongqing Taiji Industry (Group) Co., Ltd.;
- (iii) Mr. YANG Wenming is a director of China National Traditional Chinese Medicine Co., Ltd.;
- (iv) Mr. YANG Shanhua is the chief accountant of CNPGC (Mr. YANG Shanhua has resigned as the non-executive Director with effect from 19 November 2022);
- (v) Ms. LI Ru is the director of the legal and risk management department of CNPGC;
- (vi) Mr. YANG Binghua is the head of the party committee department of CNPGC and a director of Chongqing Taiji Industry (Group) Co., Ltd.; and

LETTER FROM THE BOARD

- (vii) Mr. WANG Kan is the director of the investment management department of CNPGC and a director of Chongqing Taiji Industry (Group) Co., Ltd.

The above Directors are regarded as having a material interest in the New Master Supply Agreement and the transactions contemplated thereunder by virtue of their positions held in the CNPGC Group and/or its associates. Each of them had abstained from voting at the Board meeting on the relevant resolution for approving the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps).

The EGM will be convened by the Company at which resolution will be proposed to seek approval from the Independent Shareholders for the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps) by way of poll. CNPGC and its associates, which are interested in 1,634,705,642 Shares as at the Latest Practicable Date (representing approximately 32.46% of the total number of issued Shares), will abstain from voting on the relevant resolution at the EGM.

The Independent Board Committee has been established to advise the Independent Shareholders on the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps). The Independent Board Committee comprises Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong, all being independent non-executive Directors. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps).

EGM

The EGM will be convened by the Company at which a resolution will be proposed to seek approval from the Independent Shareholders for the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps) by way of poll. A notice convening the EGM to be held at Conference Room, 4th floor, Winteam Plaza, 6 Kuiqi Second Road, Chancheng District, Foshan City, Guangdong Province, China at 2:30 p.m., on Wednesday, 4 January 2023 is set out on pages EGM-1 and EGM-2 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, 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 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

In order to determine the Shareholders who are entitled to attend the EGM, the Company's register of members will be closed from Friday, 30 December 2022 to Wednesday, 4 January 2023 (both days inclusive). The Shareholders whose names appear on the register of members of the Company on Wednesday, 4 January 2023 are entitled to attend and vote at the EGM. Shareholders who wish to attend the EGM but have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at the registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 29 December 2022.

LETTER FROM THE BOARD

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

RECOMMENDATION

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

The Directors also consider that (i) the terms of the New Master Supply Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, and (ii) the Sales contemplated under the New Master Supply Agreement are conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors also recommend the Independent Shareholders to vote in favour of the resolution in relation to the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps) to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 12 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter of advice from Gram Capital set out on pages 13 to 21 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders on the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps).

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



国药集团
SINOPHARM

CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED

中國中藥控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 570)

15 December 2022

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE NEW MASTER SUPPLY AGREEMENT

We refer to the circular issued by the Company to the Shareholders dated 15 December 2022 (the “Circular”) of which this letter forms a part. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider and to give recommendation to the Independent Shareholders on the New Master Supply Agreement and the transactions contemplated thereunder (including the Proposed Sales Caps), Gram Capital has been appointed as the independent financial adviser. We wish to draw your attention to the letter from the Board set out on pages 4 to 11 of the Circular and the letter from Gram Capital set out on pages 13 to 21 of the Circular.

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

Yours faithfully,

For and on behalf of the Independent Board Committee of
China Traditional Chinese Medicine Holdings Co. Limited

Mr. XIE Rong
*Independent Non-
Executive Director*

Mr. YU Tze Shan Hailson
*Independent Non-
Executive Director*

Mr. QIN Ling
*Independent Non-
Executive Director*

Mr. LI Weidong
*Independent Non-
Executive Director*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction 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

15 December 2022

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

Dear Sir/Madam,

RENEWAL OF 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 the Sales contemplated under the New Master Supply Agreement (the “**Transaction**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 15 December 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The term of the Existing Master Supply Agreement will expire on 31 December 2022. On 11 November 2022, the Company entered into the New Master Supply Agreement with CNPGC to govern the terms of the Sales for the three financial years ending 31 December 2025.

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

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong, has been established to advise the Independent Shareholders on (i) whether the terms of the Transaction are on normal commercial terms and are fair and reasonable; (ii) whether the Transaction is in the interests of the Company and the Shareholders as a whole and is 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 to approve the Transaction 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.

LETTER FROM GRAM CAPITAL

INDEPENDENCE

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

BASIS OF OUR OPINION

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

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the 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 therein misleading.

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

LETTER FROM GRAM CAPITAL

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 Transaction, we have taken into consideration the following principal factors and reasons:

Background of and reasons for the Transaction

Information on the Group

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

Set out below are the financial information of the Group for the two years ended 31 December 2021 and the six months ended 30 June 2022 ("HY2022") (with comparative figures) as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report") and the Company's interim report for the six months ended 30 June 2022 (the "2022 Interim Report") respectively:

	For the year ended 31 December 2021 <i>(audited)</i> RMB'000	For the year ended 31 December 2020 <i>(audited)</i> RMB'000	Year-on-year change %
Revenue	19,052,802	14,806,168	28.68
- <i>Chinese medicinal herbs integration business</i>	753,006	434,181	73.43
- <i>Concentrated TCM granules</i>	13,400,064	10,053,933	33.28
- <i>TCM decoction pieces</i>	1,467,420	1,146,080	28.04
- <i>TCM finished drugs</i>	3,194,217	3,015,016	5.94
- <i>TCM great health products</i>	93,515	50,903	83.71
- <i>TCM clinic comprehensive services</i>	144,580	106,055	36.33
Gross profit	11,829,163	9,126,075	29.62
Profit for the year	2,123,424	1,860,644	14.12

The Group's revenue was approximately RMB19.05 billion for the year ended 31 December 2021 ("FY2021"), representing increase of approximately 28.68% as compared to that for the year ended 31 December 2020 ("FY2020"). With reference to the 2021 Annual Report, such increase in revenue was mainly attributable to the evident strengths of quality controllability and convenience of concentrated TCM

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granules, effective academic promotion resulting in continuous improvement in market recognition and promoting the steady development of business. The Group's gross profit and profit for FY2021 also increased as compared to those for FY2020.

	For the six months ended 30 June 2022	For the six months ended 30 June 2021	Year-on-year change
	<i>(unaudited)</i>	<i>(unaudited)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	5,911,638	8,149,351	(27.46)
- <i>Chinese medicinal herbs integration business</i>	431,175	303,954	41.86
- <i>Concentrated TCM granules</i>	2,761,603	5,424,327	(49.09)
- <i>TCM decoction pieces</i>	841,372	688,908	22.13
- <i>TCM finished drugs</i>	1,765,649	1,648,611	7.10
- <i>TCM great health products</i>	48,321	21,271	127.17
- <i>TCM medical institutions</i>	63,518	62,280	1.99
Gross profit	2,951,871	5,002,764	(41.00)
Profit for the period	421,535	1,006,679	(58.13)

The Group's revenue was approximately RMB5.91 billion for HY2022, representing decrease of approximately 27.46% as compared to that for the corresponding period in 2021. With reference to the 2022 Interim Report, such decrease in revenue was mainly due to substantial decrease in revenue from the concentrated TCM granules segment. With reference to the 2021 Annual Report, the 2022 Interim Report and as confirmed by the Directors, on 10 February 2021, the National Medical Products Administration, National Administration of Traditional Chinese Medicine, National Health Commission and National Healthcare Security Administration jointly issued 《關於結束中藥配方顆粒試點工作的公告》 (the Announcement on Ending the Pilot Scheme of Concentrated TCM Granules*) (the "Policy Announcement"), which was officially implemented on 1 November 2021. Pursuant to the requirements under the Policy Announcement, since 1 November 2021, the varieties of concentrated TCM granules produced by concentrated TCM granules production enterprises shall be qualified for national drug standards, and those not specified in national drug standards shall meet the standards formulated by the provincial drug regulatory departments. Shortages of published or recorded varieties of national standards and provincial standards for concentrated TCM granules put limits on prescription in medical ends, which affects sales of concentrated TCM granules for HY2022. Concentrated TCM granules demands of some medical institutions for HY2022 also decreased in phases resulting from sufficient products storage of enterprise standard at the initial stage of the implementation of the requirements under the Policy Announcement.

The Group's gross profit and profit for HY2022 also decreased as compared to those for the corresponding period in 2021.

With reference to the 2022 Interim Report, in the second half of 2022, the Group will continue to focus on the overall strategy of "all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare whole industry chain to create an industry-leading TCM healthcare whole

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industry chain group”, seize new opportunities for development of TCM during the “14th Five-Year Plan” period, establish a coordinated, efficient and leading TCM healthcare whole industry chain system, accelerate the process of modernization, standardization and industrialization of TCM, and create “four-in-one” TCM healthcare enterprises with the integration of product research and development, intelligent manufacturing, global sales and system services as its core.

Information on CNPGC

With reference to the Board Letter, CNPGC is the only life-and health-oriented central enterprise directly under the State-owned Assets Supervision and Administration Commission of the State Council, with a whole healthcare industry chain covering research and development, manufacturing, logistics and distribution, retail chains, healthcare, engineering services, etc.

Reasons for and benefits of the Transaction

With reference to the Board Letter, the New Master Supply Agreement was entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules and to capture the business opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is the only life-and health-oriented central enterprise directly under the State-owned Assets Supervision and Administration Commission of the State Council, with a whole healthcare industry chain covering research and development, manufacturing, logistics and distribution, retail chains, healthcare, engineering services, etc. Members of the CNPGC Group have been the customers of the Products since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity and a well-established distribution network. The New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. In addition, as CNPGC Group is one of the largest pharmaceutical companies in the PRC, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC via the CNPGC Group as the Group’s distributor.

Having considered the above and that the Products are major pharmaceutical products manufactured by the Group, we are of the view that the Transaction is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

Principal terms of the Transaction

Date of the New Master Supply Agreement

11 November 2022

Parties

The Company and CNPGC

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Subject matter

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the Products to the CNPGC Group during the period from 1 January 2023 to 31 December 2025. The terms of the Sales shall adhere to the following principles:

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

For our due diligence purpose, we obtained a list of historical Sales for FY2020, FY2021 and the seven months ended 31 July 2022 from the Company. We randomly selected from the aforesaid list and the Company provided us a set of invoices (comprising one invoice to CNPGC Group and one invoice to independent third party) for each of FY2020, FY2021 and the seven months ended 31 July 2021 (i.e. three sets of invoices in total) between (i) the Group and CNPGC Group (for the Sales); and (ii) the Group and independent third parties (for comparable transactions of the Sales), and noted that the prices offered by the Group to CNPGC Group were the same as those offered by the Group to independent third parties for the same products (the “**Observation**”). As the aforesaid invoices covered each of FY2020, FY2021 and the seven months ended 31 July 2022, we consider the number of invoices reviewed to be sufficient from an independent financial adviser’s perspective.

With reference to the Board Letter, the Group has adopted certain internal control procedures in relation to pricing and annual caps monitoring of the Sales, details of which are set out in the section headed “INTERNAL CONTROLS” of the Board Letter. We consider the effective implementation of such internal control procedures would help to ensure fair pricing of the Sales. Based on the Observation above, we do not doubt the fair pricing of the Sales. In addition, we also obtained from the Company records of monitoring the Sales amount for FY2021. According to the Company’s record, the historical annual cap for FY2021 has not been exceeded.

With reference to the 2021 Annual Report, the independent non-executive Directors reviewed relevant continuing connected transactions of the Company (including the Sales) during FY2021 and confirmed that such continuing connected transactions have been entered into (i) in the usual and ordinary course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In addition, the Company’s auditor was engaged to report on the Group’s continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, the Company’s auditor, provided a letter to the Board regarding the relevant continuing connected transactions of the Company (including the Sales) during FY2021 confirming that: (i) nothing has

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come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Board; (ii) for transactions involving the provisions of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the annual cap as set by the Company.

The Proposed Sales Caps

Set out below are (i) the existing annual caps of the Sales for each of the three years ending 31 December 2022; (ii) the historical transaction amount for each of the two years ended 31 December 2021 and the eight months ended 31 August 2022; and (iii) the Proposed Sales Caps for each of the three years ending 31 December 2025 as extracted from the Board Letter:

	For the year ended 31 December 2020	For the year ended 31 December 2021	For the year ending 31 December 2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing annual caps	1,200,000,000	1,450,000,000	1,700,000,000
Historical transaction amount	840,246,000	1,035,125,000	587,126,000 (<i>Note</i>)

	For the year ending 31 December 2023	For the year ending 31 December 2024	For the year ending 31 December 2025
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
The Proposed Sales Caps	1,750,000,000	2,100,000,000	2,500,000,000

Note: For the eight months ended 31 August 2022

The Proposed Sales Caps were determined mainly by reference to the factors as set out under the subsection headed “Basis of determination of the Proposed Sales Caps” of the Board Letter.

We noted that (i) the utilisation rates of the existing annual caps of the Sales for FY2020 and FY2021 were over 70%; and (ii) the Sales historical amount for FY2021 increased by approximately 23% as compared to that for FY2020 (the “**FY2021 Increase**”).

As advised by the Company:

- (i) The Sales estimated amount for the year ending 31 December 2022 (“**FY2022**”) will be approximately RMB1.3 billion based on the Sales historical amount of approximately RMB1,035 million for FY2021 and growth rate of approximately 23.19% with reference to the FY2021 Increase (RMB1,035 million x (1 + 23.19%) = RMB1,275 million).

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- (ii) The Sales estimated amount for the year ending 31 December 2023 (“FY2023”) will be approximately RMB1.6 billion based on the above Sales estimated amount for FY2022 and growth rate of 20%. After incorporating a buffer of 10% and rounding, the Proposed Sales Cap for FY2023 was set at RMB1.75 billion.
- (iii) After incorporating a growth rate of 20%, the Proposed Sales Cap for the year ending 31 December 2024 was set at RMB2.1 billion.
- (iv) After incorporating a growth rate of 20% and rounding, the Proposed Sales Cap for the year ending 31 December 2025 was set at RMB2.5 billion.

As aforementioned, the Group’s revenue for FY2021 increased by approximately 28.68% as compared to that for FY2020. Nevertheless, the Group’s revenue for HY2022 decreased by approximately 27.46% as compared to that for the corresponding period in 2021. Such decrease was mainly due to substantial decrease in revenue from the concentrated TCM granules segment (caused by certain circumstances led by implementation of the requirements under the Policy Announcement, including shortages of published or recorded varieties of national standards and provincial standards for concentrated TCM granules). Revenue for all other segments for HY2022 increased as compared to that for the corresponding period in 2021.

As advised by the Directors, the published or recorded varieties of national standards and provincial standards for concentrated TCM granules will gradually increase and the Group’s revenue from the concentrated TCM granules segment is expected to recover thereafter. In addition, based on the data provided by the Company, sales of concentrated TCM granules represented approximately 22%, 23% and 11% of the Sales historical amount for each of FY2020, FY2021 and the eight months ended 31 August 2022 respectively.

Furthermore, we noticed that the Sales historical amount for the eight months ended 31 August 2022 represented only approximately 57% of the Sales historical amount for FY2021. Nevertheless, based on the data provided by the Company, the Sales historical amounts in second half of FY2020/FY2021 (i.e. approximately RMB542 million and RMB573 million respectively) were higher than the Sales historical amounts in first half of FY2020/FY2021 (i.e. approximately RMB298 million and RMB462 million respectively).

Having considered the above, we consider that the growth rates applied in the Proposed Sales Caps estimation are justifiable.

In light of the above, we consider that the Proposed Sales Caps for the three years ending 31 December 2025 are fair and reasonable.

Shareholders should note that as the Proposed Sales Caps for the three years ending 31 December 2025 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of revenue to be generated from the Sales. Consequently, we express no opinion as to how closely the actual revenue to be generated from the Sales will correspond with the Proposed Sales Caps.

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Listing Rules implication

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

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transaction 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 Transaction are on normal commercial terms and are fair and reasonable; and (ii) the Transaction is conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction and we recommend the Independent Shareholders to vote in favour of the resolutions 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.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the 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 misleading.

2. DISCLOSURE OF INTERESTS

Director and chief executive's interests and short positions in shares, underlying shares or debentures of the Company

As at the Latest Practicable Date, none of the Directors and chief executives of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange.

Interests and Short Positions of Substantial Shareholders in the Shares and underlying shares

As at the Latest Practicable Date, to the best knowledge of the Directors and chief executives of the Company, the following Shareholders (other than Directors or chief executives of the Company) had interests or short positions in the Company's issued shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in the Company ⁽¹⁾
Sinopharm Hongkong	Beneficial owner	1,634,705,642 (long position) (Note 2)	32.46%
CNPGC	Interest of controlled corporations	1,634,705,642 (long position) (Note 2)	32.46%
Ping An Life	Beneficial owner	604,296,222 (long position) (Note 3)	12.00%
Ping An Group	Interest of controlled corporation	604,296,222 (long position) (Note 3)	12.00%

Notes:

- (1) The approximate percentage of the total issued Shares of the Company is calculated with reference to the Company's number of shares in issue as at the Latest Practicable Date.
- (2) The 1,634,705,642 shares are held by Sinopharm Hongkong, which is indirectly wholly owned by CNPGC.
- (3) the 604,296,222 shares are held by Ping An Life Insurance Company of China, Ltd. ("**Ping An Life**") which is a subsidiary of Ping An Insurance (Group) Company of China, Ltd. ("**Ping An Group**"). Ping An Group is deemed to be interested in Ping An Life's interest in the Company under the SFO.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were also directors or employees of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company	Position
Mr. CHEN Yinglong	China National Traditional Chinese Medicine Co., Ltd.	Chairman and general manager
Mr. CHENG Xueren	China National Traditional Chinese Medicine Co., Ltd. and Chongqing Taiji Industry (Group) Co., Ltd.	Director
Mr. YANG Wenming	China National Traditional Chinese Medicine Co., Ltd.	Director
Ms. LI Ru	CNPGC	Director of the legal and risk management department
Mr. YANG Binghua	CNPGC	Head of the party committee department
	Chongqing Taiji Industry (Group) Co., Ltd.	Director
Mr. WANG Kan	CNPGC	Director of the investment management department
	Chongqing Taiji Industry (Group) Co., Ltd.	Director

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

3. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors nor their respective close associates had any direct or indirect interests in any businesses that constitutes or may constitute a competing business of the Company.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director had entered into any service contract or letter of appointment with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. QUALIFICATION OF EXPERT AND CONSENT

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

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

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

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, Gram Capital did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Company since 31 December 2021, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Company were made up).

8. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

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

9. DOCUMENTS ON DISPLAY

Copies of the New Master Supply Agreement are available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.china-tcm.com.cn) from the date of this circular up to and including the date of the EGM.

10. MISCELLANEOUS

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

NOTICE OF THE EXTRAORDINARY GENERAL MEETING



国药集团
SINOPHARM

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

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

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of China Traditional Chinese Medicine Holdings Co. Limited (the “**Company**”, together with its subsidiaries the “**Group**”) will be held at Conference Room, 4th floor, Winteam Plaza, 6 Kuiqi Second Road, Chancheng District, Foshan City, Guangdong Province, China, on Wednesday, 4 January 2023 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT:**
 - (a) The new master supply agreement (the “**New Master Supply Agreement**”) dated 11 November 2022 and entered into between the Company and CNPGC in relation to the sales of various pharmaceutical products manufactured and supplied by the Group to the CNPGC Group and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
 - (b) the annual caps for the New Master Supply Agreement and the transactions contemplated thereunder as stated in the Circular for the three years ending 31 December 2025 be and are hereby approved, confirmed and ratified; and
 - (c) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the New Master Supply Agreement and the transactions contemplated thereunder and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the New Master Supply Agreement as they may in his/her/their discretion consider to be desirable and in the interests of the Company and all the Directors’ acts as aforesaid be hereby approved, confirmed and ratified.”

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

Hong Kong, 15 December 2022

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. In order to determine the Shareholders who are entitled to attend the EGM, the Company's register of Shareholders will be closed from Friday, 30 December 2022 to Wednesday, 4 January 2023 (both days inclusive). The Shareholders whose names appear on the register of members of the Company on Wednesday, 4 January 2023 are entitled to attend and vote at the EGM. Shareholders who wish to attend the EGM but have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at the registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 29 December 2022.
2. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at the EGM. A proxy need not be a member of the Company.
3. A form of proxy for the EGM is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, shall be deposited at the Company's share registrar in Hong Kong, 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 less than 48 hours before the time appointed for holding the EGM.

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