



**CHINA SUNRISE CAPITAL LIMITED**  
Unit 4513, 45th Floor  
The Center  
99 Queen's Road Central  
Hong Kong

12 July 2024

*To: The Independent Board Committee and the Independent Shareholders of  
China Resources Pharmaceutical Group Limited*

Dear Sirs or Madams,

**CONTINUING CONNECTED TRANSACTIONS  
SALES FRAMEWORK AGREEMENT  
REVISION OF ANNUAL CAPS AND EXTENSION OF TERM**

**INTRODUCTION**

We refer to our appointment by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the revised annual cap for the year ending 31 December 2024 (the “**Revised Annual Cap**”) and the proposed annual cap for the year ending 31 December 2025 (the “**Proposed Annual Cap**”) for the transactions contemplated under the Supplemental Sales Framework Agreement (the “**Continuing Connected Transactions**”), the details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 12 July 2024 (the “**Circular**”), of which this letter (the “**Letter**”) forms part. Capitalised terms used in this Letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the December 2022 Announcement in relation to the Existing Sales Framework Agreement and the June 2024 Announcement in relation to the Supplemental Sales Framework Agreement. On 17 June 2024, the Company and CR Healthcare entered into the Supplemental Sales Framework Agreement, pursuant to which the parties agreed to revise the existing annual cap for the transactions for the year ending 31 December 2024, to extend the term of the Existing Sales Framework Agreement to 31 December 2025, and to agree on the proposed annual cap for the transactions for the year ending 31 December 2025. Save for the Revised Annual Cap, the Proposed Annual Cap and the duration of the agreement, the other terms and conditions of the Existing Sales Framework Agreement shall remain valid and in full force and effect.

## **LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, CR Holdings, being a controlling shareholder of the Company indirectly holding 53.40% interest in the Company, held 100% interest in CR Healthcare. CR Holdings is ultimately owned by CRC. Accordingly, CR Healthcare is a connected person of the Company and the transactions contemplated under the Sales Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Annual Caps under the Supplemental Sales Framework Agreement exceed 5%, the Sales Framework Agreement and the transaction and the Annual Caps contemplated thereunder are subject to reporting, announcement, annual review, and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors has any material interest in the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder, and none of the Directors has abstained from voting on the relevant Board resolution approving the Supplemental Sales Framework Agreement.

Pursuant to Rule 14A.36 of the Listing Rules, any shareholder with a material interest in the relevant connected transaction is required to abstain from voting on the relevant resolution. As at the Latest Practicable Date, CR Healthcare is a wholly-owned subsidiary of CR Holdings. As at the Latest Practicable Date, CRH (Pharmaceutical) Limited and Commotra Company Limited, which are wholly-owned subsidiaries of CR Holdings and are directly interested in 3,354,786,612 Shares, representing approximately 53.40% of the issued share capital of the Company, are required to and will abstain from voting on the proposed ordinary resolution approving the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder. As at the Latest Practicable Date, to the best of Directors' knowledge, information and belief having made all reasonable enquiries, save for CR Holdings and its associates, none of the other Shareholder who had a material interest in the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder would be required to abstain from voting on the relevant ordinary resolution at the EGM.

## **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mdm. Shing Mo Han Yvonne, Mr. Kwok Kin Fun, Mr. Fu Tingmei and Mr. Zhang Kejian, has been established by the Company to advise the Independent Shareholders as to:

- (a) whether the terms of the Supplemental Sales Framework Agreement (including the Revised Annual Cap and the Proposed Annual Cap) are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole;
- (b) whether the entering of the Supplemental Sales Framework Agreement is in the ordinary and usual course of business of the Group;

- (c) whether the terms of the Supplemental Sales Framework Agreement (including the Revised Annual Cap and the Proposed Annual Cap) are on normal commercial terms; and
- (d) how the Independent Shareholders should vote in respect to the relevant resolution to be proposed at the EGM to approve the Revised Annual Cap and the Supplemental Sales Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap).

We, China Sunrise Capital Limited (“**China Sunrise**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee pursuant to Rule 13.84 of the Listing Rules.

None of the members of the Independent Board Committee has any interest or involvement in the Supplemental Sales Framework Agreement and the transactions and Annual Caps contemplated thereunder. Having obtained and considered the advice from the Independent Financial Adviser, the view and recommendation of the Independent Board Committee in respect of the Continuing Connected Transactions are set out in the Letter from the Independent Board Committee in this Circular.

#### **INDEPENDENCE OF CHINA SUNRISE**

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, CR Healthcare, CR Holdings, CRC, or other parties that could reasonably be regarded as relevant to our independence. During the two years immediately prior to this letter, we have not acted in the capacity as an independent financial adviser, financial adviser or in any other capacity to the Company. Apart from normal independent financial advisory fee paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Group, CR Healthcare, CR Holdings, CRC or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent pursuant to Rule 13.84 of the Listing Rules.

#### **BASIS OF OUR ADVICE**

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the truth, accuracy and completeness of the statements, information, facts, representations and opinions contained or referred to in this Circular, provided and made to us by the Directors and the management of the Group (collectively, the “**Management**”), the Company, and its advisers. We have reviewed, amongst other things:

- (i) the Existing Sales Framework Agreement;
- (ii) the Supplement Sales Framework Agreement;

- (iii) the Company's annual reports for the two financial years ended 31 December ("FY") 2022 (the "**2022 Annual Report**") and 2023 (the "**2023 Annual Report**");
- (iv) other information, representations and opinions as contained or referred to in this Circular.

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 in this Circular or this Circular misleading. We have also sought and received confirmation from the Directors that no material information or facts have been omitted from the information and facts provided to us and the representations made and opinions expressed by them are not misleading or deceptive in any material respect. We have no reason to suspect that any material information or facts have been omitted or withheld nor to doubt the truth, accuracy or completeness of the information and facts contained in this Circular or provided to us, or the reasonableness of the opinions expressed by the Management, the Company, and its advisers, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for us to formulate our advice as set out in this Letter. We have assumed that all statements, information, facts, representations and opinions contained or referred to in this Circular and/or those provided to us by the Management, the Company and its advisers, for which they are solely and wholly responsible, have been reasonably made after due enquiries and careful consideration and are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so in all material respect up to the date of the EGM.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of this Circular, save and except for this Letter.

We consider that we have taken all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided to us by the Management, nor have we conducted any independent investigation into the businesses, affairs, operations, financial position or future prospects of the Group, CRC, CR Holdings, CR Healthcare and each of their respective subsidiaries or associates.

Our advice is necessarily based on the prevailing financial, economic, market and other conditions and the information made available to us as at the Latest Practicable Date. Where information in this Letter has been extracted from published or otherwise publicly available sources, the sole responsibility of ours is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not used out of context.

This Letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the matters relating to the terms of the Supplemental Sales Framework Agreement and the transactions contemplated thereunder (including the Annual Caps). Except for its inclusion in this Circular, this Letter is not to be quoted or referred to, in whole or in part, nor shall this Letter be used for any other purposes, without our prior written consent.

## **PRINCIPAL FACTORS TAKEN INTO CONSIDERATION**

In formulating our opinion and recommendations in respect of the Continuing Connected Transactions to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

### **1. Background information of the Group**

The Group's core business encompasses research and development, manufacturing, distribution and retail of an extensive range of pharmaceutical and other healthcare products.

The following is a summary of the financial results of the Group for each of FY2022 and FY2023, as extracted from the 2023 Annual Report:

**Table 1: Highlights of the financial results of the Group**

	<b>Audited</b>	
	<b>FY2022</b>	<b>FY2023</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	218,182,994	244,703,884
Cost of sales	(184,563,943)	(206,366,398)
Gross profit	33,619,051	38,337,486
Profit for the year attributable to the owners of the Company	3,500,270	3,854,247

*Source: the 2023 Annual Report*

### ***FY2023 vs FY2022***

The Group owns a comprehensive portfolio of pharmaceutical products covering a wide range of therapeutic areas, including chemical drugs, biopharmaceutical drugs, traditional Chinese medicine (“TCM”) and nutritional and healthcare products. These fully cover all major therapeutic and disease areas that offer significant potential for business growth, such as cardiovascular and cerebrovascular diseases, alimentary tract, endocrine diseases, respiratory diseases, orthopedics, nephrology, rheumatology and immunology, medical nutrition, pediatrics, genitourinary system, dermatological diseases, blood products, therapeutic infusions, antitumor drugs, medicine for cough and cold, and anti-infection drugs. For FY2023, the Group manufactured a total of 796 products, out of which 435 were included in the National Reimbursement Drug List and 205 were included

in the National Essential Drug List. All the Group's pharmaceutical manufacturing subsidiaries have established professional sales and marketing teams that cover over 100,000 medical institutions.

The Group recorded total revenue of approximately RMB244,703.9 million, representing an increase of approximately 12.2% as compared to approximately RMB218,183.0 million for FY2022. In FY2023, the revenue of the Group's three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution, and pharmaceutical retail businesses, accounted for approximately 16.0%, 80.0% and 3.9% of the Group's total revenue, respectively. During FY2023, the Group's pharmaceutical manufacturing business generated segment revenue of approximately RMB43,465.0 million, representing a steady increase of approximately 14.3% compared with that of 2022. All business segments, including TCM, chemical drugs, nutritional and healthcare products, and biopharmaceutical drugs, recorded a general increase in revenue.

During FY2023, the Group recorded a gross profit of approximately RMB38,337.5 million, representing an increase of approximately 14.0% from approximately RMB33,619.1 million in FY2022. The overall gross profit margin was approximately 15.7% in FY2023, which marked an increase of approximately 0.3% compared to approximately 15.4% in 2022. This was primarily due to the increase in gross profit margin of the pharmaceutical manufacturing business during FY2023.

In FY2023, the Group recorded a net profit of approximately RMB7,775.0 million, representing an increase of approximately 16.8% from approximately RMB6,658.0 million for FY2022. The Group generated a profit attributable to owners of the Company of approximately RMB3,854.2 million, representing an increase of approximately 10.1% as compared to approximately RMB3,500.3 million for FY2022. Excluding the effect of one-off items, such as the disposal of subsidiaries and the investment-related impairment, the profit attributable to the owners of the Company showed a solid increase of approximately 21.7% year-on-year during FY2023.

**Table 2: Highlights of the financial positions of the Group**

	<b>Audited</b>	
	<b>As at 31 December</b>	
	<b>2022</b>	<b>2023</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
<b>Non-current assets, including</b>	<b>63,274,880</b>	<b>68,202,466</b>
Property, plant and equipment	17,362,078	20,117,615
Right-of-use assets	4,335,435	4,925,159
Investment properties	1,492,168	1,692,206
Intangible assets	7,565,319	8,016,756
Goodwill	20,409,178	21,454,280
Interests in associates	5,902,085	6,005,836
Other non-current assets	4,053,741	3,344,593
<b>Current assets, including</b>	<b>152,259,493</b>	<b>178,567,830</b>
Inventories	26,546,652	31,875,487
Trade and other receivables	71,041,310	79,188,302
Other current financial assets	31,298,695	34,615,717
Pledged and term deposits	6,320,265	7,018,574
Cash and cash equivalents	15,223,726	24,650,670
<b>Total assets</b>	<b>215,534,373</b>	<b>246,770,296</b>
<b>Non-current liabilities, including</b>	<b>13,206,961</b>	<b>19,562,727</b>
Bank borrowings	4,541,903	11,093,432
Bonds payable	4,500,000	3,999,046
Deferred tax liabilities	1,587,416	1,718,120
<b>Current liabilities, including</b>	<b>121,770,068</b>	<b>134,232,755</b>
Trade and other payables	69,365,216	79,075,321
Amounts due to related parties	11,344,211	4,123,718
Bank borrowings	36,203,271	43,119,673
<b>Total liabilities</b>	<b>134,977,029</b>	<b>153,795,482</b>
<b>Net current assets</b>	<b>30,489,425</b>	<b>44,335,075</b>
<b>Net assets</b>	<b>80,557,344</b>	<b>92,974,814</b>
<b>Non-controlling interests</b>	<b>37,000,310</b>	<b>47,015,209</b>
<b>Net asset value (“NAV”) attributable to owners of the Company</b>	<b>43,557,034</b>	<b>45,959,605</b>

*Source: the 2023 Annual Report*

As at 31 December 2023, the total assets and liabilities of the Group were approximately RMB246,770.3 million and RMB153,795.5 million respectively, as compared to the respective total assets and liabilities of approximately RMB215,534.4 million and RMB134,977.0 million as at 31 December 2022 respectively, registering an increase of approximately 14.5% and 13.9% respectively. The increase in the Group's total assets was primarily due to combined effect of: (i) the increase in property, plant and equipment from approximately RMB17,362.1 million as at 31 December 2022 to approximately RMB20,117.6 million as at 31 December 2023 as a result of (i) the acquisition of 28% equity interests in KPC Pharmaceuticals, Inc. whose shares are listed on the Shanghai Stock Exchange (Stock code: Shanghai 600422) by China Resources Sanjiu Medical & Pharmaceutical Company Limited (“**CR Sanjiu**”), a subsidiary of the Company and became its controlling shareholder in January 2023 and (ii) the acquisition of 51% equity interest in Sichuan Kelun Medicine & Trade Group Co., Ltd. by China Resources Pharmaceutical Commercial Group Company Limited (“**CR Commercial**”), a subsidiary of the Company in September 2023 (collectively the “**Acquisitions**”); (ii) the increase in trade receivables mainly attributable to the increases in trade receivables of CR Sanjiu and CR Commercial after the completion of the Acquisitions; and (iii) the increase in cash and cash equivalents from approximately RMB15,223.7 million as at 31 December 2022 to approximately RMB24,650.1 million as at 31 December 2023 mainly due to the increase in net cash flows generated from operating activities and the capital contribution from non-controlling shareholders. The increase in the Group's total liabilities was mainly attributable to the increase in bank borrowings for the Acquisitions. Given the movement of the total assets and total liabilities of the Group highlighted above, the NAV attributable to owners of the Company increased from approximately RMB43,557.0 million as at 31 December 2022 to approximately RMB45,959.6 million as at 31 December 2023, representing a slight increase of approximately 5.5%.

## **2. Reasons for and benefits of the transactions contemplated under the Supplemental Sales Framework Agreement**

As stated in the 2023 Annual Report, the growing aging population, better livelihood and increased health awareness in China contribute to the development of a highly integrated market with significant potential for the pharmaceutical industry. The pharmaceutical industry is experiencing growth momentum, undergoing structural changes and adjusting for high-quality development. Driven by factors such as increasing demand from the aging population, consumption upgrades and technological advancements, the PRC pharmaceutical market continues to expand. In view of the recent development in the pharmaceutical industry, the Directors expected that the demand for pharmaceutical and medical products from CR Healthcare and/or its associates and/or the hospitals managed by CR Healthcare and/or its associates will increase. As stated in the Letter from the Board, the Group has continued to grow its business scale and market position in respect of its supply of medical and pharmaceutical products and consumables. During FY2023, both of the Group's pharmaceutical manufacturing segment and pharmaceutical distribution segment showed steady year-on-year growth of approximately 14.3% and 11.4%, respectively, in terms of segment revenue. On the other hand, the scale of business of CR Healthcare and its associates (the “**CR Healthcare Group**”) and the hospital network managed by CR Healthcare Group have continued to expand. The number of hospitals managed by CR Healthcare and/or its associates increased from 116 as of 31 December 2022 to 134 as of 31 December 2023, and further increased by 35



hospitals to 169 as of 31 May 2024, representing a growing demand for medical and pharmaceutical products and consumables required by the hospital network managed by CR Healthcare and/or its associates. Considering the significant increase in transaction amounts pursuant to the Existing Sales Framework Agreement, it is anticipated that the annual cap for the year ending 31 December 2024 under the Existing Sales Framework Agreement will be insufficient to cater to the expected increase in demand for the Group's products from CR Healthcare. As stated in the Letter from the Board, multiple governmental policies favourable to the pharmaceutical and healthcare industry have been promulgated in recent years, including, without limitation, the Work Plan for Supporting High-Quality Development of Medical Institutions Operated by State-Owned Enterprises\* (《支持國有企業舉辦醫療機構高質量發展工作方案》), the Opinions on Further Improving the Medical and Healthcare Service System\* (《關於進一步完善醫療衛生服務體系的意見》), and the Fourteenth Five-Year Plan for Universal Medical Security\* (《「十四五」全民醫療保障規劃》). Such policies promote the high quality development of hospitals and medical institutions and stimulate the expansion and growth potentials of nationwide hospital and healthcare service providers, including CR Healthcare and its associates. Coupled with other market drivers, such as the aging population in the PRC, increasing prevalence of chronic diseases, optimisation of service quality, and development of medical insurance programs, the demand for medical and pharmaceutical products and consumables has continued to grow. Such scale of expansion of the hospital network managed by CR Healthcare and/or its associates and the overall rate of increase in demand for medical and pharmaceutical products and consumables were not anticipated when the proposed annual cap under the Existing Sales Framework Agreement was determined. Hence, the Board proposed to increase the existing annual cap to fulfill the expected increase in demand for pharmaceutical and healthcare products from CR Healthcare. We are of the view that the revision of annual caps would allow the Group to capture the potential increase in sales from CR Healthcare in FY2024 and FY2025 and thus, increase revenue of the Group which is beneficial to the Group.

The Company and CR Healthcare have maintained long-standing and stable cooperation relationship. Since the terms of Existing Sales Framework Agreement shall expire on 31 December 2024 and the Company expects such transactions will continue thereafter, the Supplemental Sales Framework Agreement was entered into for the purpose of enabling the Group to continue to supply medical and pharmaceutical products and consumables to CR Healthcare, which bring a stable source of income to the Group and to continue to expand its pharmaceutical distribution network. Furthermore, the extend duration of agreement pursuant to the Supplemental Sales Framework Agreement can ensure steady sales of medical and pharmaceutical products and consumables from the Group to CR Healthcare and to maintain the parties' stable business relationship. It is also expected that, with the expected increase in transaction volume under the Supplemental Sales Framework Agreement, the Group will be able to generate greater income stream and to further grow its pharmaceutical distribution business. The Company considered that the entering into of the Supplemental Sales Framework Agreement is in the mutual interests of the Group and CR Healthcare to continue with this long-standing business relationship.

In light of the above, we are of the view that the entering into of the Supplemental Sales Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

### 3. Principal terms of the Supplemental Sales Framework Agreement

We have reviewed the Supplemental Sales Framework Agreement and noted that save for the revision of the annual caps and the duration of the agreement, the other terms and conditions of the Existing Sales Framework Agreement shall remain valid and in full force and effect. With reference to the Letter from the Board, the principal terms of the Supplemental Sales Framework Agreement are as follow:

Date:	17 June 2024
Parties:	(a) CR Healthcare; and (b) the Company
Term:	The term of the Existing Sales Framework Agreement is extended to end on 31 December 2025. Subject to compliance with the Listing Rules and other applicable laws and regulations, CR Healthcare and the Company may renew the term of the Sales Framework Agreement.

#### *Scope*

The Group may from time to time supply medical and pharmaceutical products and consumables and medical devices, including but not limited to prescription medicines and over-the-counter (OTC) drugs to CR Healthcare, its associates and/or the hospitals that are managed by CR Healthcare and/or its associates (the “**Sales of Medical Products to CR Healthcare**”).

#### *Pricing Basis and Pricing Policies*

With reference to the Letter from the Board, the price of the medical and pharmaceutical products and consumables supplied under the Sales Framework Agreement shall be determined in accordance with the applicable prescribed price or guided price of that product fixed by the relevant PRC regulators, if applicable. If there is no such prescribed price or guided price for the particular product, the price shall be determined based on the then prevailing market price and arm’s length negotiation between the parties.

#### *Pharmaceuticals*

The prices of pharmaceuticals shall be determined with reference to the prices (the “**Guided Prices I**”) as published by the sunshine procurement service platform (陽光採購平台) for the relevant location which is designated by the relevant local Healthcare Security Administration (醫療保障局). The Guided Prices I are generally determined through the tendering process of the sunshine procurement service platform system or the results of centralised bulk-buying negotiation (帶量集中採購談判). The determination of the Guided Prices I is ultimately regulated by the relevant local Healthcare Security Administration in various provinces and municipalities.

### *Medical consumables*

The prices of medical consumables shall be determined with reference to the prices (the “**Guided Prices II**”) as published by the sunshine procurement service platform for the relevant location (to the extent that such consumables have been included in the platform) which is designated by the relevant local Healthcare Security Administration in various provinces and municipalities. The Guided Prices II are generally determined through the tendering process of the sunshine procurement service platform system or the results of centralised bulk-buying negotiation. The determination of the Guided Prices II is ultimately regulated by the relevant local Healthcare Security Administration. As for the medical consumables which have not been included in the sunshine procurement service platform for the relevant location, there is no official guided price. Their procurement prices shall be determined after arm’s length negotiation on normal commercial terms taking into account the prevailing market prices for the same type of medical consumables.

### *Medical devices*

There is no official guided price for medical devices. The prices of medical devices shall be determined after arm’s length negotiation on normal commercial terms taking into account (i) the prevailing market prices for the same type of medical devices; and (ii) any cost-plus mark up margin for specific device supplied by the Group where customisation is required and prevailing market price for such customised device is not available. There is no fixed range of mark up margin for the customised medical device as the type and level of customisation may vary on a case-by-case basis. Where the Group charges a cost-plus mark up margin for any medical device, the Group will determine the mark up margin based on the type and level of customisation and will follow its internal control measures to compare the margin offered or charged to independent customers (where applicable) to ensure the margin is on normal commercial terms within a comparable range or no less favourable to the Group.

In accordance with the relevant guiding opinions and implementation notices issued by the relevant PRC regulators in 2015, including the Notice on Republishing the Administrative Fee-Charging Items for Food and Drug Regulatory Department under the Central Government (Cai Shui [2015] No. 2)\* (《關於重新發佈中央管理的食品藥品監督管理部門行政事業性收費項目的通知》(財稅[2015]2號)), the Notice on the Issuance of the Administrative Measures on Charging Rates for Drug and Medical Device Registration (Fa Gai Jia Ge [2015] No. 1006)\* (《關於印發<藥品、醫療器械產品註冊收費標準管理辦法>的通知》(發改價格[2015]1006號)), the Charging Rates for Drug and Medical Device Registration\* (《藥品、醫療器械產品註冊收費標準》), the Implementation Rules on Drug Registration Fees (Interim)\* (《藥品註冊收費實施細則(試行)》) and the Implementation Rules on the Medical Device Registration Fees (Interim)\* (《醫療器械產品註冊收費實施細則(試行)》), the procurement of pharmaceutical products by public hospitals and medical institutions in the PRC is subject to a centralised tendering process.

Accordingly, the Sales of Medical Products to CR Healthcare is also subject to such centralised tendering system in the PRC and, the Group, similar to other independent third party suppliers, is required to go through the selection and approval procedures adopted by CR Healthcare Group as well as the commercial negotiation process in order to become their suppliers. The parties also negotiate the terms of sales based on the business needs of, and the suitability of the medical and pharmaceutical products and consumables to, CR Healthcare Group and/or the hospitals managed by CR Healthcare Group in the ordinary and usual course of business.

The centralised tendering process generally operates as follows:

- (i) Public hospitals and medical institutions in different provinces and cities in the PRC will submit the types of medical and pharmaceutical products and consumables (except for decoction pieces) required in their ordinary course of business to the centralised procurement platform in the relevant province or region, where the suppliers will submit their bidding prices in respect of the relevant products and consumables;
- (ii) The relevant governmental authority will then determine the selling price of a particular medical and pharmaceutical product or consumable in the relevant province or region by taking into consideration mainly the bidding prices and quality of the product or consumable offered by different suppliers, and from which supplier(s) the hospitals and medical institutions in that province or region may purchase the product or consumable at such selling price; and
- (iii) Due to the nature and operation of the above-mentioned centralised tendering process, the selling price for the same type of product or consumable may vary across different provinces and regions.

After completion of the above-mentioned centralised tendering process and commercial negotiation, the Group will supply its medical and pharmaceutical products and consumables to, CR Healthcare Group and/or the hospitals managed by CR Healthcare Group on the agreed terms and conditions upon receiving purchase orders specifying the brand, volume and types of products and consumables. The Group shall comply with appropriate internal procedures before it enters into any transaction under the Sales Framework Agreement with CR Healthcare Group and/or the hospitals managed by CR Healthcare Group.

For our due diligence purpose, we have obtained and reviewed, by way of random sampling, the transaction documents in respect of the relevant historical transactions for the Sales of Medical Products to CR Healthcare (the “**Sample Transaction(s)**”) since the entering of the Existing Sales Framework Agreement and up to the Latest Practicable Date (the “**Relevant Period**”). We have reviewed (i) two (2) sets of transaction documents for the sales of pharmaceuticals to each of members of CR Healthcare Group and independent third parties which the prices were determined with reference to the guided prices as published by the sunshine procurement service platform ; (ii) two (2) sets of transaction documents for the sales of medical consumables to each of members of CR Healthcare Group and independent third parties which the prices were determined with

reference to the guided prices as published by the sunshine procurement service platform; (iii) two (2) sets of transaction documents for the sales of medical consumables to each of members of CR Healthcare Group and independent third parties which the products had not been included in the sunshine procurement service platform; and (iv) two (2) sets of transaction documents for the sales of medical devices to each of members of CR Healthcare Group and independent third parties.

Based on our review on the Sample Transactions, we noted that (i) the sales of items (except medical devices) are comparable products; (ii) the selling prices of the relevant medical and pharmaceutical products and consumables were no less favourable to the Group than those offered by the Group to independent customers. For the sales of products which the basis of determining the price was primarily made with reference to the guided price, we noted that such price could be extracted from the centralised procurement system. Therefore, we checked from the relevant Sample Transactions that the selling price of a particular product offered to each of CR Healthcare Group and independent customer is consistent with the guided price listed in the centralised procurement system. On the other hand, for the products which had no guided price from the centralised procurement system, we noted from the relevant Sample Transactions that the selling prices of these products were the prevailing market price which were no less favourable to the Group than those offered to independent customers; (iii) there is no official guided price for medical devices. With respect to the relevant Sample Transactions on sales of medical devices, we are advised by the Management that one of the medical devices is customised and therefore no prevailing market price was available for such Sample Transaction. In this connection, we have reviewed the price quotation and noted that the Company has adopted the cost-plus mark up pricing approach and the margin for such medical device is within the range of and no less favourable than the margin of same type of medical device with similar specifications supplied to an independent third party customer during the Relevant Period. We have also reviewed another transaction that the price of the medical device was determined with reference to the prevailing market price as shown in the centralised procurement system; (iv) the Group had passed the selection and approval procedures adopted by CR Healthcare Group for the sales of products which were subject to a centralised tendering process in order to become their suppliers; and (v) there were proper authorisations from relevant management(s) on the transaction documents, including the approvals by the relevant personnel-in-charge of sales department, quality control department, legal department and finance department.

Based on our review as stated above, we are of the view that (i) the pricing and other terms offered by the Group under the Supplemental Sales Framework Agreement are on normal commercial terms which are no less favourable to the Group than those offered to other independent third parties for similar transactions; and (ii) the pricing policy under the Supplemental Sales Framework Agreement is fair and reasonable.

### *Internal control measures*

As set out in the Letter from the Board, the Group has implemented adequate internal control measures for monitoring all of its continuing connected transactions, including (without limitation) the regular reporting of transaction volume to the Group's finance department for monitoring the annual caps of the relevant transactions. Details of the internal control measures are set out in the section headed "INTERNAL CONTROL MEASURES" under the Letter from the Board.

With reference to the Letter from the Board, the Group, similar to other independent third-party suppliers, is required to go through the selection and approval procedures adopted by CR Healthcare and its associates as well as the commercial negotiation process in order to become a supplier of CR Healthcare Group and/or hospitals managed by CR Healthcare Group.

As part of the Group's internal approval and monitoring procedures relating to transactions with CR Healthcare Group, and/or hospitals managed by CR Healthcare Group, the Group will (i) compare the terms (including the selling prices) of its products and commodities that are offered to, or quoted by, other at least two independent customers (where available), and/or to the extent reasonably practicable, obtain market or industry data on the pricing of transactions of similar nature, scope and scale from time to time through publicly available information on the public sources such as on the website of the National Medical Products Administration (where available) in order to ensure that the transactions entered into with CR Healthcare Group and/or hospitals managed by CR Healthcare Group under the Sales Framework Agreement are on normal commercial terms or no less favourable to the Group than those offered to independent third parties; (ii) negotiate the terms of sales based on the business needs of, and the suitability of the medical and pharmaceutical products and consumables to, CR Healthcare Group and/or the hospitals managed by CR Healthcare Group in their ordinary and usual course of business; and (iii) the transactions will be reviewed and passed by its internal approval procedures.

As discussed in the section headed "Pricing Basis and Pricing Policies" above, we have obtained and reviewed the Sample Transactions and noted that (i) the Sample Transactions are in compliance with the pricing policy that the selling prices of the products sold by the Group to CR Healthcare were no less favourable than those offered by the Group to the independent customers; (ii) for the sales of the products which were subject to a centralised tendering process and the Group has passed the selection and approval procedures adopted by CR Healthcare Group in order to become their suppliers; and (iii) there were proper authorisation from relevant management(s) on the transaction documents in accordance to the internal control procedure of the Group, including the approvals by the relevant personnel-in-charge of the sales department, quality control department, legal department and finance department. Having considered above, we are of the view that the Group's internal control measures in relation to the pricing policies serve to ensure the transactions contemplated under the Supplemental Sales Framework Agreement will be conducted on normal commercial terms and as such, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

*Review by the external auditors*

Pursuant to Rule 14A.56 of the Listing Rules, the Company must engage its external auditors to review the continuing connected transactions annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.

We understand from the Management that the external auditor will conduct its review in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 (Revised) “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. We noted from the 2023 Annual Report that the auditor of the Company has reported on the Group’s continuing connected transactions (including the transactions under the Existing Sales Framework Agreement) in accordance with Rule 14.56 of the Listing Rules.

*Review by the independent non-executive Directors*

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors must review annually the continuing connected transactions and confirm in the Company’s annual report whether the continuing connected transactions have been entered into: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. We noted from the 2023 Annual Report that the independent non-executive Directors have reviewed and confirmed the Group’s continuing connected transactions (including the transactions under the Existing Sales Framework Agreement) in this regard.

The Management has confirmed that the transactions between the Group and CR Healthcare under the Existing Sales Framework Agreement have been complied with the relevant internal control procedures and pricing policies as mentioned above. Furthermore, the finance department of the Company shall regularly monitor the caps of the continuing connected transactions to ensure the applicable annual caps are not exceeded. When the projected transaction amount approaches or reaches the applicable annual caps, the Company shall revise the annual cap in accordance with the internal control procedures governing the continuing connected transactions.

Having considered the above, we are of the view that the internal control measures for monitoring the transactions contemplated under the Supplemental Sales Framework Agreement have been effectively implemented. We concur with the view of the Directors that the above procedures can ensure that the transactions contemplated under the Supplemental Sales Framework Agreement will be appropriately monitored and conducted on commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### 4. Assessment of the Revised Annual Cap and the Proposed Annual Cap

##### (i) Review of historical transaction amounts

The table below sets out: (i) the historical transaction amounts of the Sales of Medical Product to CR Healthcare for FY2022, FY2023 and for the three months (“3M”) ended 31 March 2024 based on the management accounts of the Group; (ii) the existing annual caps for each of FY2022, FY2023 and FY2024; and their respective utilisation rates:

	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>
	<i>(RMB in million)</i>	<i>(RMB in million)</i>	<i>(RMB in million)</i>
Existing annual cap	1,000	1,500 <i>(Note 1)</i>	1,500
Historical transaction amount	966.4	1,307.3	437.5 <i>(Note 2)</i>
Utilisation rate	96.6%	87.2%	29.2% <i>(Note 2)</i>

*Notes:*

1. The existing annual cap under the Existing Sales Framework Agreement for FY2024 had not been exceeded as of the date of the Supplemental Sales Framework Agreement, and as of the Latest Practicable Date, the Company would not expect the actual transaction amounts under the Existing Sales Framework Agreement would exceed such existing annual cap for FY2024 as of the date of the EGM.
2. It represents the unaudited historical transaction amount for the 3M2024.

As shown in the table above, the historical transaction amounts contemplated under the Existing Sales Framework Agreement were approximate RMB966.4 million and RMB1,307.3 million for FY2022 and FY2023, respectively, representing approximately 96.6% and 87.2% of the total annual caps for the respective periods. The historical transaction amount of the Sales of Medical Products to CR Healthcare for 3M2024 amounted to approximately RMB437.5 million, representing approximately 29.2% of the existing annual cap for FY2024. The annualised transaction amount under the Existing Sales Framework Agreement would be approximately RMB1,750.0 million with the annualised utilisation rate of 116.7% the total annual cap for FY2024, which implies the existing annual cap for FY2024 is likely to be exceeded. (Note: it is for illustration purpose only and does not represent the actual transaction amount for the year ending 31 December 2024). In view of the high utilisation rate, the Company proposes to revise the existing annual cap.



**(ii) The Revised Annual Cap and the Proposed Annual Cap**

As further disclosed in the Letter from the Board, the table below sets out the Revised Annual cap for FY2024 and the Proposed Annual Cap for FY2025:

	<b>The Revised Annual Cap FY2024</b>	<b>The Proposed Annual Cap FY2025</b>
	<i>(RMB in million)</i>	<i>(RMB in million)</i>
Sales of Medical Products to CR Healthcare	2,500	3,000

For details of the basis of the Revised Annual Cap and the Proposed Annual Cap, please refer to the respective sections headed “B. The Supplemental Sales Framework Agreement — Annual Caps and Basis of Determination” in the Letter from the Board.

In order to assess the fairness and reasonableness of the Annual Caps under the Supplemental Sales Framework Agreement, we have performed the following work and analysis:

- (i) We have obtained from the Management and reviewed the calculations of the Annual Caps under the Supplemental Sales Framework Agreement which are based on the expected Sales of Medical Products to CR Healthcare, each of its associates and the hospitals that are managed by CR Healthcare and/or its associates in FY2024 and FY2025. In determining the expected sales amounts for FY2024 and FY2025, the Company have considered a number of factors including (i) the amount of purchase orders received from CR Healthcare as at the Latest Practicable Date; (ii) the fact that the historical amounts of the Sales of Medical Products to CR Healthcare for FY2022 and FY2023 show an average annual increment of over 35%; (iii) the historical amount of the Sales of Medical Products to CR Healthcare for the fourth quarter of FY2023 represents approximately 42% of the total amount of Sales of Medical Products to CR Healthcare for the nine months ended 30 September 2023; and (iv) the historical transaction amount of the Sales of Medical Products to CR Healthcare for 3M2024 amounted to approximately RMB437.5 million, representing an increase of approximately 78.0% as compared the Sales of Medical Products to CR Healthcare of approximately RMB245.8 million for 3M2023. According to the Management, such increase in sales was mainly due to the significant growth in the demand for the medical and pharmaceutical products and consumables, including but not limited to prescription medicines and over-the-counter (OTC) drugs to CR Healthcare Group and the hospitals that are managed by CR Healthcare Group as a result of the continuous business growth of CR Healthcare Group. Taking into account the increase in transaction amounts under the Existing Sales Framework Agreement, the Company is of the view that the basis of the Annual Caps is in line with the growing trend of demand from CR Healthcare;

- (ii) China Resources Medical Holdings Company Limited (“**CR Medical**”), the shares of which are listed on the main board of the Stock Exchange (stock code: 1515) and the equity interests of which is 36.58% beneficially held by CR Holdings. As at the Latest Practicable Date, CR Healthcare indirectly holds approximately 35.76% equity interests in CR Medical. CR Medical is principally engaged in the provision of general healthcare services, hospital management services and sale of pharmaceuticals, medical devices and medical consumables and provision of other hospital ancillary services in the PRC. The Management advised that the Sales of Medical Products to CR Healthcare under the Supplemental Sales Framework Agreement also includes the sales of medical products to CR Medical and the hospitals managed by CR Medical. According to the annual report of CR Medical for FY2023, we noted that CR Medical managed and operated a total of 134 medical institutions in 10 provinces and cities in the PRC as at 31 December 2023, representing an increase of 18 medical institutions as compared to the same as at 31 December 2022 with reference to the annual report of CR Medical for FY2022. Further, the number of conventional out-patient visits and in-patient visits of self-owned hospitals of CR Medical were approximately 10,140,000 and 550,000, respectively, representing the respective year-on-year increase of 10.0% and 10.2%. We were advised by the Management that CR Medical had represented to the Group that it will further expand its business scale. As such, the Management expected that there would be an increase in demand for the products of the Group from CR Medical and the hospitals that are managed by CR Medical in the next two years. The Company is of the view that the basis of the Annual Caps is in line with the growing trend of demand from CR Medical;
- (iii) We noted from the 2022 Annual Report and 2023 Annual Report that the types of products manufactured by the Company, comprising chemical drugs, Chinese medicines and biological drugs as well as nutritional healthcare products, increased from 626 types for FY2022 to 769 types for FY2023. As advised by the Management that the Company will continue to enrich the product portfolio and further diversify its types of pharmaceutical products such as western medicines and medical tablets. The Management expects such product expansion strategy that it offers new products to CR Healthcare Group will lead to an increase in Sales of Medical Products to CR Healthcare; and
- (iv) We were advised by the Management that the Company applied a buffer of approximately 10% to the Annual Caps for unforeseeable circumstances such as (i) unexpected increase in demand for products; and (ii) unexpected increase in unit price of the products. Having considered (i) the utilisation rate of existing annual caps in FY2022 and FY2023 have reached 97% and 87%, respectively; and (ii) the buffer allows further flexibility for carry out transactions contemplated under the Supplemental Sales Framework Agreement, we are of the view that such buffer of 10% when determining the Annual Caps to be justifiable.

Having considered the basis on which the Annual Caps are determined as described above, we are of the view that the Annual Caps are fair and reasonable so far as the Independent Shareholder are concerned.

However, the Annual Caps under the Supplemental Sales Framework Agreement are determined based on information currently available to the Company and the analysis as set out above, and the utilisation of the Annual Caps refer to future events associated with factors and uncertainties which may beyond the control of the Management. Hence, we express no opinion as to the accuracy and the actual utilisation of the Annual Caps under the Supplemental Sales Framework Agreement.

#### **OPINION AND RECOMMENDATION**

Having considered the abovementioned principal factors and reasons, we are of the view that (i) the Annual Caps under the Supplemental Sales Framework Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (ii) the Continuing Connected Transactions are in the ordinary and usual course of business of the Company and on normal commercial terms. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution in relation to the Supplemental Sales Framework Agreement at the EGM.

Yours faithfully,  
for and on behalf of  
**CHINA SUNRISE CAPITAL LIMITED**



**Cecilia Tam**  
*Executive Director*

*Ms. Cecilia Tam is a licensed person registered with the SFC and a responsible officer of China Sunrise Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 14 years of experience in the corporate finance industry.*

\* *For identification purposes only*