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If you have sold or transferred all your shares in **CSPC Pharmaceutical Group Limited**, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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**CSPC PHARMACEUTICAL GROUP LIMITED****石藥集團有限公司***(Incorporated in Hong Kong with limited liability)***(Stock code: 1093)****(1) GRANT OF SHARE OPTIONS UNDER THE SHARE OPTION SCHEME****(2) APPLICATION FOR WHITEWASH WAIVER****AND****(3) NOTICE OF EGM****Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders****Nuada Limited**

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 7 to 20 of this circular. A letter from the Independent Board Committee including its advice to the Independent Shareholders is set out on pages 21 to 22 of this circular. A letter from Nuada including its advice to the Independent Board Committee is set out on pages 23 to 54 of this circular.

A notice convening the EGM to be held at Suite 3206, 32/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong on Friday, 3 November 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of a proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof in person should you so desire.

Hong Kong, 9 October 2023

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DEFINITIONS

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

“acting in concert”	has the same meaning as ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 4 September 2023 in relation to, among other things, the Underlying Transaction and the Whitewash Waiver
“Articles of Association”	the memorandum and articles of association of the Company
“associate”	has the same meaning as ascribed to it in the Listing Rules
“Beijing Zhongyihe”	Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership)* (北京中宜和合眾投資管理中心(有限合夥)) is a limited partnership established under the laws of the PRC with Mr. Cai being the general partner and (i) approximately 33.33% of its total capital contributions is directly owned by Mr. Cai; and (ii) approximately 66.67% of its total capital contributions is directly owned by four other limited liability partnerships established in the PRC, the capital contributions of which are in turn owned by more than 90 individuals being existing and former management personnel of (a) the Group (including certain Management Grantees, namely Mr. Cai, Mr. Zhang Cuilong, Dr. Li Chunlei, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Wang Zhenguo and Dr. Jiang Hao as to approximately 0.00027%, 6.67%, 6.67%, 8%, 8%, 6.67% and 1% of the total capital contributions of Beijing Zhongyihe respectively) and (b) CSPC Holdings Group
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which licensed banks are generally open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities
“Common Success”	Common Success International Limited, a company incorporated in the British Virgin Islands with limited liability and is ultimately beneficially owned by more than 80 individuals being existing and former management personnel of (i) the Group (including certain Management Grantees, namely Mr. Zhang Cuilong (as to approximately 11.15%), Mr. Pan Weidong (as to approximately 13.38%), Mr. Wang Zhenguo (as to approximately 11.15%), Mr. Wang Huaiyu (as to approximately 13.38%), Dr. Li Chunlei (as to approximately 11.15%) and Dr. Jiang Hao (as to approximately 1.67%)) and (ii) CSPC Holdings Group

DEFINITIONS

“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	CSPC Pharmaceutical Group Limited (石藥集團有限公司) (Stock code: 1093), a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“core connected person”	has the same meaning as ascribed to it under the Listing Rules
“CSPC Holdings Group”	CSPC Holdings Company Limited (石藥控股集團有限公司) (a company established in the PRC in which Mr. Cai is indirectly interested in more than 30% through a series of corporations) and its subsidiaries
“Date of Grant”	4 September 2023, being the date of the Announcement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Suite 3206, 32/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong on Friday, 3 November 2023 at 10:00 a.m. to approve, among other things, Mr. Cai’s Share Options, the Underlying Transaction and the Whitewash Waiver
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of such Executive Director
“Executive Director(s)”	the executive Director(s) of the Company
“Exercise of the Share Options”	the exercise of the Share Options by the Management Grantees in full
“Grant Conditions”	the conditions to the grant and exercise of the Share Options as set out in the section headed “Grant Conditions of the Share Options” in the letter from the Board of this circular
“Group”	the Company, and its subsidiaries
“Harmonic Choice”	Harmonic Choice Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Massive Top
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent board committee, comprising all the independent non-executive Directors, namely Mr. WANG Bo, Mr. CHEN Chuan, Prof. WANG Hongguang, Mr. AU Chun Kwok Alan, Mr. LAW Cheuk Kin Stephen and Ms. LI Quan, established to advise the Independent Shareholders on the Underlying Transaction and the Whitewash Waiver
“Independent Financial Adviser” or “Nuada”	Nuada Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Underlying Transaction and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than (i) the Management Group; (ii) those who are involved in or interested in the Underlying Transaction and/or the Whitewash Waiver and (iii) the Trustee
“Key Honesty”	Key Honesty Limited, a company incorporated in the British Virgin Islands with limited liability and is ultimately beneficially owned by Mr. Cai
“Latest Practicable Date”	6 October 2023, being the latest practicable date of this circular for ascertaining certain information contained herein
“Last Trading Day”	31 August 2023, being the last trading day of the Shares before the date of the Announcement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange
“Management Grantees”	comprising all the Executive Directors, namely Mr. Cai, Mr. ZHANG Cuilong, Dr. LI Chunlei, Mr. WANG Huaiyu, Mr. WANG Zhenguo, Mr. PAN Weidong, Dr. WANG Qingxi, Mr. CHAK Kin Man and Dr. JIANG Hao and “Management Grantee” means any one of them
“Management Group”	the Management Grantees and parties acting in concert with any of them, including Mr. Cai’s Controlled Corporations and Common Success
“March Rise”	March Rise Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to 40% indirectly by Mr. Cai through True Ally and 60% directly by Beijing Zhongyihe

DEFINITIONS

“Massive Giant”	Massive Giant Group Limited, a company incorporated in the British Virgin Islands with limited liability and is ultimately beneficially owned by Mr. Cai
“Massive Top”	Massive Top Limited, a company incorporated in Hong Kong with limited liability and is owned as to 10% indirectly by Mr. Cai through True Ally, 75% directly by March Rise and 15% directly by Beijing Zhongyihe
“Mr. Cai”	Mr. Cai Dongchen, an Executive Director and Chairman of the Board and a substantial shareholder of the Company
“Mr. Cai’s Acquisitions”	The on-market purchases by Mr. Cai (i) on 27 March 2023 in respect of 392,000 Shares, 174,000 Shares, 118,000 Shares and 1,000,000 Shares for HK\$7.56 per Share, HK\$7.65 per Share, HK\$7.69 per Share and HK\$7.75 per Share respectively; (ii) on 28 March 2023 in respect of 500,000 Shares and 500,000 Shares for HK\$7.60 per Share and HK\$7.61 per Share respectively; and (iii) on 29 March 2023 in respect of 1,570,000 Shares for HK\$7.46 per Share
“Mr. Cai’s Controlled Corporations”	means Massive Giant, True Ally, Key Honesty and Harmonic Choice, each being a direct Shareholder controlled directly or indirectly by Mr. Cai
“Mr. Cai’s Related Persons”	Mr. Cai’s associates and all core connected persons of the Company, details of which are disclosed in the section headed “Grant of Share Options under the Share Option Scheme” set out in the “Letter from the Board” in this circular
“Mr. Cai’s Share Options”	the 18,000,000 Share Options conditionally granted to Mr. Cai (an Executive Director and a substantial shareholder of the Company) under the Share Option Scheme
“Notice of EGM”	the notice convening the EGM as set out on pages EGM-1 to EGM-3 of this circular
“Offer Letter”	the offer letter dated 4 September 2023 issued by the Company to each Management Grantee in respect of his respective grant of Share Options pursuant to the terms and conditions of the Share Option Scheme, subject to the acceptance by the relevant Management Grantee
“PRC”	the People’s Republic of China (excluding, for the purpose of the Announcement and this circular only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan region)

DEFINITIONS

“Relevant Period”	the period beginning six months before the date of the Announcement (i.e. 4 March 2023) and ending on the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	share(s) of the Company with no par value
“Share Award Scheme”	the restricted share award scheme of the Company adopted on 20 August 2018
“Share Options”	50,000,000 share options entitling the holders thereof to subscribe for a total of 50,000,000 new Shares at the exercise price of HK\$5.98 per Share conditionally granted by the Company to the Management Grantees pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 9 December 2015 and will expire on 8 December 2025
“Share Option Shares”	the 50,000,000 new Shares to be allotted and issued to the Management Grantees pursuant to the Share Option Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning as ascribed to it under the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“True Ally”	True Ally Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and directly wholly-owned by Mr. Cai
“Trustee”	BOCI-Prudential Trustee Limited, being the trustee of the Share Award Scheme
“Underlying Transaction”	the conditional grant of the Share Options and the Exercise of the Share Options

DEFINITIONS

“Whitewash Waiver”

a waiver to be granted by the Executive pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code from the obligations of the Management Grantees to make a mandatory general offer for all of the Shares and other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company (if any) not already owned or agreed to be acquired by the Management Group which would otherwise arise as a result of the completion of the Exercise of the Share Options

“%”

per cent

** The English names are for identification purposes only.*

LETTER FROM THE BOARD



CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1093)

Executive Directors:

Mr. CAI Dongchen (*Chairman*)
Mr. ZHANG Cuilong (*Vice-Chairman and Chief Executive Officer*)
Mr. PAN Weidong
Mr. WANG Zhenguo
Mr. WANG Huaiyu
Dr. LI Chunlei
Dr. WANG Qingxi
Mr. CHAK Kin Man
Dr. JIANG Hao

Registered Office:

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

Independent Non-executive Directors:

Mr. WANG Bo
Mr. CHEN Chuan
Prof. WANG Hongguang
Mr. AU Chun Kwok Alan
Mr. LAW Cheuk Kin Stephen
Ms. LI Quan

Hong Kong, 9 October 2023

To the Shareholders

Dear Sir or Madam,

**(1) GRANT OF SHARE OPTIONS UNDER THE SHARE OPTION SCHEME
(2) APPLICATION FOR WHITEWASH WAIVER
AND
(3) NOTICE OF EGM**

1. INTRODUCTION

Reference is made to the Announcement in relation to, among others, Mr. Cai's Share Options, the Underlying Transaction and Whitewash Waiver.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with, amongst other things, (i) further information regarding Mr. Cai's Share Options; (ii) further information regarding the Underlying Transaction and Whitewash Waiver; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Underlying Transaction and Whitewash Waiver as to whether they are fair and reasonable and as to voting; (iv) the letter from Nuada to the Independent Board Committee in respect of the Underlying Transaction and the Whitewash Waiver as to whether they are fair and reasonable and as to voting; (v) Notice of EGM; and (vi) additional information as required under the Listing Rules and the Takeovers Code.

2. GRANT OF SHARE OPTIONS UNDER THE SHARE OPTION SCHEME

The Board announces that on 4 September 2023, the Company has conditionally granted the Share Options to the Management Grantees to subscribe for an aggregate of 50,000,000 Shares under the Share Option Scheme, subject to the acceptances by the Management Grantees after the Grant Conditions have been fulfilled. Details of the Share Options are set out below:

Date of Grant:	4 September 2023, being the date of the Announcement
Number of Share Options conditionally granted:	Share Options entitling the holders thereof to subscribe for a total of 50,000,000 Shares, representing approximately 0.420% of the total number of issued Shares immediately before the completion of the Exercise of the Share Options and approximately 0.418% of the total number of issued Shares as enlarged by the issuance of the Share Option Shares, respectively (assuming there is no other change in the number of issued Shares of the Company)
Closing price per Share on the Date of Grant:	HK\$5.98
Consideration of the Share Options:	HK\$1.00 to be paid by each Management Grantee upon acceptance of his respective Share Options
Exercise price of the Share Options:	HK\$5.98 per Share, representing the higher of: <ol style="list-style-type: none">(i) the closing price of HK\$5.98 per Share as stated in the Stock Exchange's daily quotations sheet on the Date of Grant (i.e. the date of the Announcement); and(ii) the average closing price of HK\$5.91 per Share as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the Date of Grant (i.e. the date of the Announcement).

LETTER FROM THE BOARD

Exercise period of the Share Options:

Subject to fulfillment of the Grant Conditions, the vesting conditions and vesting period as mentioned below, the Share Options shall be exercisable within a period of 10 years from the Date of Grant (i.e. 4 September 2023 to 3 September 2033, both days inclusive).

Vesting conditions and vesting period of the Share Options:

Vesting of the Share Options are subject to the following conditions:

First Tranche: Conditional upon the Group having achieved a single-digit percentage growth on the amount of the underlying profit attributable to shareholders (i.e. the profit attributable to shareholders after excluding certain non-operating items as determined by the Board) for the year ended 31 December 2023 as compared to that for the year ended 31 December 2022, then 50% of the Share Options will be vested on 1 April 2024.

Second Tranche: Conditional upon the Group having achieved a double-digit percentage growth on the amount of the underlying profit attributable to shareholders (i.e. the profit attributable to shareholders after excluding certain non-operating items as determined by the Board) for the year ended 31 December 2024 as compared to that for the year ended 31 December 2023, then 50% of the Share Options will be vested on 1 April 2025.

If the condition referred to above in respect of the first tranche or the second tranche cannot be satisfied, the Share Options under the relevant tranche shall not be vested.

The remuneration committee of the Company is of the view that such vesting period is appropriate in the circumstances taking into account that the conditional grant of the Share Options is for the purpose of providing incentives and rewards to the Management Grantees for their continuous contributions to the growth and development of the Group.

LETTER FROM THE BOARD

Conditions precedent

The conditions which must be fulfilled before the Exercise of the Share Options are set out in the section headed “Grant Conditions of the Share Options” in this letter from the Board. The Grant Conditions cannot be waived by the Company or any of the Management Grantees.

Financial assistance

The Group has not provided any financial assistance to the Management Grantees to facilitate the purchase of the Share Option Shares upon the Exercise of the Share Options.

Clawback Mechanism

If a Management Grantee ceases to be an employee, director or executive of any member of the Group (the “**Relevant Company**”) by reason of the termination of his employment, directorship or office on the ground that he/she has been guilty of misconduct, or has committed any act of bankruptcy, or has become insolvent, or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which the Relevant Company would be entitled to terminate his employment, directorship or office (whether under law or contract), the Share Options granted to such Management Grantee will lapse automatically and will not be exercisable (to the extent not already exercised).

If a Management Grantee ceases to be a participant of the Share Option Scheme (i) for any reason other than on his death or the termination of his employment, directorship, office or appointment on one or more of the grounds specified in the preceding paragraph above; or (ii) by reason of his death, such Management Grantee (or his personal representative(s) in the case of death) may exercise such Management Grantee’s Share Options up to his entitlement at the date of cessation or death (to the extent exercisable but not already exercised) within a period of 3 months and 12 months respectively following the date of cessation or death (as the case may be).

No trustee has been appointed under the Share Option Scheme. None of the Directors is and will be a trustee of the Share Option Scheme nor has a direct or indirect interest in the trustees of the Share Option Scheme (if any).

LETTER FROM THE BOARD

The number of Share Options conditionally granted to each of the Management Grantees is set out below:

Name of Management Grantee	Position in the Company	Number of Share Options conditionally granted
CAI Dongchen	Chairman and Executive Director	18,000,000
ZHANG Cuilong	Vice-Chairman, Chief Executive Officer and Executive Director	8,000,000
LI Chunlei	Executive Director	6,000,000
WANG Huaiyu	Executive Director	3,000,000
WANG Zhenguo	Executive Director	3,000,000
PAN Weidong	Executive Director	3,000,000
WANG Qingxi	Executive Director	3,000,000
CHAK Kin Man	Executive Director	3,000,000
JIANG Hao	Executive Director	3,000,000
Total		50,000,000

Pursuant to the terms of the Share Option Scheme, grant of share options to directors, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the grantee). The conditional grant of Share Options to the above Executive Directors has been approved by the independent non-executive Directors in accordance with the terms of the Share Option Scheme and Rule 17.04(1) of the Listing Rules. The selection of grantees for the conditional grant of the Share Options and the number of Share Options conditionally granted to each of the Management Grantees were determined by the Board, based on the individual's work performance, responsibilities and potential contribution to the Group.

All the Executive Directors, being the Management Grantees, have abstained from voting on the relevant Board resolutions for considering and approving the conditional grant of Share Options to the above Executive Directors. To avoid future conflict of interests, each of the above Executive Directors will abstain from voting on any relevant Board resolution(s) and administration in relation to any matter relating to the Share Option Scheme and the Share Award Scheme in the future with respect to his interests (if any) under such incentive schemes. Furthermore, according to the terms of reference of the Remuneration Committee of the Company, the Remuneration Committee (comprising three independent non-executive Directors) shall, among others, review and/or approve matters relating to the Share Option Scheme and the Share Award Scheme, and shall ensure that no Director or any of his associates is involved in deciding his own remuneration. Moreover, the Board has resolved that there is no intention to grant any Share options and/or Share awards to the independent non-executive Directors under the Share Option Scheme or Share Award Scheme respectively in the future.

LETTER FROM THE BOARD

Pursuant to the terms of the Share Option Scheme and Rule 17.04(3) of the Listing Rules, if the grant of share options to a substantial shareholder of the Company or any of its associates would result in the shares to be issued in respect of all share options and awards granted (excluding any share options and awards lapsed) to such person during the 12-month period up to and including the date of grant representing in aggregate over 0.1% of the relevant class of shares in issue, such proposed grant of share options shall be approved by shareholders in a general meeting in the manner described in Rule 17.04(4) of the Listing Rules.

As the total number of Shares to be issued to Mr. Cai (an Executive Director and a substantial shareholder of the Company) upon exercise of Mr. Cai's Share Options would, in a 12-month period up to and including the Date of Grant, exceed 0.1% of the Shares in issue, Mr. Cai's Share Options are therefore conditional upon Shareholders' approval at the EGM pursuant to the terms of the Share Option Scheme and Rule 17.04(3) of the Listing Rules.

As at the Latest Practicable Date, having made all reasonable enquiries, save for Mr. Cai, Mr. Cai's Related Persons and the Trustee (which held 2,881,567,350 Shares in aggregate, representing approximately 24.21% of the issued Shares) as disclosed below, which were required to abstain from voting on the resolution to approve Mr. Cai's Share Options, no other Shareholder will be required to abstain from voting on the resolution to approve Mr. Cai's Share Options at the EGM:

Name	Identity	Number of Shares held	Approximate percentage of the issued Shares
Mr. Cai	Management Grantee	225,386,960	1.89%
True Ally	A company directly wholly-owned by Mr. Cai (Mr. Cai's associate)	948,249,600	7.97%
Massive Giant	A company indirectly wholly-owned by Mr. Cai (Mr. Cai's associate)	1,218,834,470	10.24%
Key Honesty	A company indirectly wholly-owned by Mr. Cai (Mr. Cai's associate)	406,904,640	3.42%
Harmonic Choice	A company ultimately controlled by Mr. Cai through a chain of corporations (Mr. Cai's associate)	26,880,000	0.23%
Mr. Chak Kin Man	Executive Director (Core connected person of the Company)	3,847,680	0.03%
Trustee	trustee of the Share Award Scheme	<u>51,464,000</u>	<u>0.43%</u>
Total		<u><u>2,881,567,350</u></u>	<u><u>24.21%</u></u>

As at the Latest Practicable Date, none of the Shareholders who are required to abstain from voting in favour of the resolution for approving Mr. Cai's Share Options have given the Company notice of their intention to vote against the resolution at the EGM.

LETTER FROM THE BOARD

Save as disclosed above, as at the Latest Practicable Date, none of the Management Grantee was (i) a participant with options and awards granted and to be granted exceeding the 1% individual limit under Rule 17.03D of the Listing Rules; nor (ii) a related entity participant or service provider (as defined in Listing Rules) with options and awards granted and to be granted in any 12-month period exceeding 0.1% of the total issued Shares.

Subsequent to the grant of the Share Options after the Grant Conditions have been fulfilled, the number of Shares available for future grant under the Share Option Scheme is 541,101,840 Shares. The Board has resolved that the aggregate maximum number of Shares that may be granted under the Share Option Scheme (including the grant of the 50,000,000 Share Options) and Share Award Scheme shall not exceed an annual limit of 0.5% of the total number of Shares in issue from time to time in respect of the relevant financial year of the Company at the time of the grant/award.

3. EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

Subject to the Grant Conditions having been fulfilled and assuming that there will be no change in the total number of issued Shares during the period from the Latest Practicable Date up to completion of the Exercise of the Share Options, upon the Exercise of the Share Options at the exercise price of HK\$5.98 per Share as prescribed in the terms of the grant, the Management Grantees will be allotted and issued with an aggregate of 50,000,000 new Shares, representing approximately 0.420% of the total number of issued Shares immediately before the completion of the Exercise of the Share Options and approximately 0.418% of the total number of issued Shares as enlarged by the issuance of the Share Option Shares, respectively.

As at the Latest Practicable Date, there were (i) 11,903,219,732 Shares in issue; (ii) 50,000,000 outstanding Share Options as disclosed in the Announcement; and (iii) 658,000 outstanding share awards (being existing Shares held by the Trustee which have not been vested) and 4,000 share awards (being existing Shares held by the Trustee which have been vested but not yet been transferred to the relevant awardee) pursuant to the Share Award Scheme. Save as disclosed above, as at the date of the Latest Practicable Date, the Company had no other outstanding securities convertible or exchangeable into Shares.

The Management Group holds an aggregate of 3,558,899,663 Shares, representing approximately 29.90% of the total number of issued Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issuance of the Share Option Shares upon Exercise of the Share Options (assuming that there will be no other change in the total number of issued Shares prior to completion of the Exercise of the Share Options):

	As at the Latest Practicable Date		Immediately after the issuance of the Share Option Shares upon Exercise of the Share Options	
	No. of Shares	%	No. of Shares	%
I. Management Group				
Mr. Cai and Mr. Cai's Controlled Corporations (<i>Note 1</i>)	2,826,255,670	23.74	2,844,255,670	23.79
Common Success (<i>Note 2</i>)	728,796,313	6.12	728,796,313	6.10
Mr. ZHANG Cuilong	—	—	8,000,000	0.07
Dr. LI Chunlei	—	—	6,000,000	0.05
Mr. WANG Huaiyu	—	—	3,000,000	0.03
Mr. WANG Zhenguo	—	—	3,000,000	0.03
Mr. PAN Weidong	—	—	3,000,000	0.03
Dr. WANG Qingxi (<i>Note 3</i>)	—	—	3,000,000	0.03
Mr. CHAK Kin Man	3,847,680	0.03	6,847,680	0.06
Dr. JIANG Hao	—	—	3,000,000	0.03
Sub-total of the Management Group:	<u>3,558,899,663</u>	<u>29.90</u>	<u>3,608,899,663</u>	<u>30.19</u>
II. Other Shareholders				
Other Shareholders	<u>8,344,320,069</u>	<u>70.10</u>	<u>8,344,320,069</u>	<u>69.81</u>
Total:	<u>11,903,219,732</u>	<u>100</u>	<u>11,953,219,732</u>	<u>100</u>

Notes:

- As at the Latest Practicable Date, Mr. Cai was beneficially interested in 225,386,960 Shares and was deemed to be interested in 2,600,868,710 Shares through various companies, comprising (i) 406,904,640 Shares (representing approximately 3.42% of the total number of issued Shares) directly held by Key Honesty, a direct wholly-owned subsidiary of True Ally, (ii) 1,218,834,470 Shares (representing approximately 10.24% of the total number of issued Shares) directly held by Massive Giant, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 Shares (representing approximately 7.97% of the total number of issued Shares) directly held by True Ally, which is directly wholly-owned by Mr. Cai and (iv) 26,880,000 Shares (representing approximately 0.23% of the total number of issued Shares) directly held by Harmonic Choice by virtue of his interests in a chain of corporations holding Harmonic Choice, namely Massive Top, of which March Rise, Beijing Zhongyihe and True Ally own 75%, 15% and 10%, respectively. March Rise in turn is owned as to 40% by True Ally and 60% by Beijing Zhongyihe, the general partner of which is Mr. Cai.

LETTER FROM THE BOARD

2. As at the Latest Practicable Date, Common Success was ultimately beneficially owned by more than 80 individuals being existing and former management personnel of (i) the Group and (ii) CSPC Holdings Group. These management personnel include certain Directors, namely Mr. Zhang Cui long, Mr. Pan Weidong, Mr. Wang Zhenguo, Mr. Wang Huaiyu, Dr. Li Chunlei and Dr. Jiang Hao. None of these Directors beneficially own one-third or more of the total number of issued shares of Common Success.
3. Based on the information provided by Key Honesty, Key Honesty granted share awards to Dr. Wang Qingxi, enabling him to acquire 3,000,000 Shares from Key Honesty at the consideration of HK\$2.95 per Share pursuant to a share grant agreement dated 1 April 2022 made between Key Honesty and Dr. Wang Qingxi. Such share awards will only be vested in batches after 3 years from 1 April 2022 subject to the terms of the aforesaid share grant agreement.
4. Certain figures included in the above table have been subject to rounding adjustments. Accordingly, figures shown as totals or sub-totals may not represent precise arithmetic aggregations.

4. APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Management Group held an aggregate of 3,558,899,663 Shares, representing approximately 29.90% of the total number of issued Shares. Upon completion of the Exercise of the Share Options, the Management Group will be interested in 3,608,899,663 Shares, representing (a) approximately 30.32% of the total number of issued Shares as at the Latest Practicable Date; and (b) approximately 30.19% of the total number of issued Shares as enlarged by the issuance of the Share Option Shares.

The Exercise of the Share Options will cause the aggregate shareholding interests in the total number of issued Shares held by the Management Group to increase from approximately 29.90% (of the total number of issued Shares as at the Latest Practicable Date) to approximately 30.19% (of the total number of issued Shares as enlarged by the issuance of the Share Option Shares). Accordingly, the Management Grantees would be obliged to make a mandatory general offer pursuant to Rule 26.1 of the Takeovers Code to the Shareholders for all the issued Shares of the Company not already owned or agreed to be acquired by the Management Group as a result of the allotment and issuance of the Share Option Shares to the Management Grantees, unless the Whitewash Waiver is granted by the Executive.

In this regard, an application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the conditions that the respective resolutions relating to the Underlying Transaction on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll in accordance with the requirements of the Takeovers Code.

The Executive has agreed, subject to the respective resolutions relating to the Underlying Transaction on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll, to waive the obligation of the Management Grantees to make a mandatory general offer as a result of the allotment and issuance of the Share Options Shares to the Management Grantees by the Company.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company did not believe that the Underlying Transaction would give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Underlying Transaction does not comply with other applicable rules and regulations.

5. GRANT CONDITIONS OF THE SHARE OPTIONS

According to the terms of the Offer Letter to each of the Management Grantees, the grant and exercise of the Share Options are subject to the fulfillment of the following conditions precedent (the “Grant Conditions”):

- (i) Mr. Cai’s Share Options being approved by more than 50% of the votes cast by the Shareholders (other than Mr. Cai, Mr. Cai’s Related Persons and the Trustee who are required to abstain from voting under the Listing Rules) at the EGM by way of poll in accordance with Chapter 17 of the Listing Rules;
- (ii) the Whitewash Waiver being granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code to the Management Grantees of the obligation to make a mandatory general offer for all the issued Shares and other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company (if any) not already owned or agreed to be acquired by the Management Group as a result of the allotment and issuance of the Share Option Shares to the Management Grantees and such Whitewash Waiver not having been withdrawn; and
- (iii) the respective resolutions relating to the Underlying Transaction on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll.

None of the Grant Conditions set out above can be waived by the Company or any of the Management Grantees. The Management Grantees do not reserve the right to waive any of the Grant Conditions. If any of the Grant Conditions is not fulfilled, the Exercise of the Share Options cannot take place and the grant of Share Options will be cancelled.

6. INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture and sale of pharmaceutical products in the PRC.

7. INFORMATION ON THE MANAGEMENT GROUP

Please refer to the sections headed “Grant of Share Options under the Share Option Scheme” and “Effects on Shareholding Structure of the Company” in this letter from the Board regarding details of the Management Group and their respective interests in the Company as at the Date of Grant.

LETTER FROM THE BOARD

8. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. WANG Bo, Mr. CHEN Chuan, Prof. WANG Hongguang, Mr. AU Chun Kwok Alan, Mr. LAW Cheuk Kin Stephen and Ms. LI Quan, in compliance with Rule 2.8 of the Takeovers Code, has been formed to advise the Independent Shareholders on the Underlying Transaction and the Whitewash Waiver.

Nuada has been appointed by the Board with the Independent Board Committee's approval as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Underlying Transaction and the Whitewash Waiver in accordance with the requirements of the Takeovers Code.

9. INTENTIONS OF THE MANAGEMENT GRANTEES REGARDING OPERATION OF THE GROUP AND REASONS AND BENEFITS FOR THE UNDERLYING TRANSACTION

Mr. Cai is an Executive Director and Chairman of the Board and a substantial shareholder of the Company. The Management Group has a positive view on the business prospects of the Group and intend to continue with the existing businesses of the Group and do not intend to introduce any major changes in the businesses of the Group.

The Underlying Transaction, which allows the Management Grantees to gain further ownership interest in the Group and ties more closely their personal interest directly with the value of the Group, would incentivize and motivate the Management Grantees for their continuous commitment, devotion and contributions to the development and growth of the Group going forward. In addition, in light of the satisfactory financial performance of the Group for the years ended 31 December 2020, 2021 and 2022, the Exercise of the Share Options by the Management Grantees as a reward, compensation and remuneration to the Management Grantees in recognition of their valuable contributions to the Group is justifiable. Furthermore, upon completion of the Exercise of the Share Options, it will result in positive cash flows of approximately HK\$299 million derived from the exercise price payable by the Management Grantees to the Company which in turn will further replenish the Company's general working capital for its business operations and developments.

For the reasons stated above, the Directors (other than the Executive Directors who have an interest in the Underlying Transaction and/or the Whitewash Waiver) consider that the granting of the Whitewash Waiver, without obliging the Management Grantees to make a mandatory general offer pursuant to Rule 26.1 of the Takeovers Code to the Shareholders for all the issued Shares of the Company not already owned or agreed to be acquired by the Management Group as a result of the Exercise of the Share Options, is in the interests of the Company and the Shareholders as a whole.

The Management Grantees confirm that they (a) have no intention or any plans to make any change to the continued employment of the employees of the Group after the Exercise of the Share Options; (b) do not intend to redeploy the fixed assets of the Group; and (c) intend to continue the current business operation of the Group.

LETTER FROM THE BOARD

10. EGM

The EGM will be held to approve, among other things, Mr. Cai's Share Options, the Underlying Transaction and Whitewash Waiver by way of poll.

In respect of Mr. Cai's Share Options, (a) Mr. Cai and Mr. Cai's Related Persons which held 2,830,103,350 Shares in aggregate (representing approximately 23.78% of the issued Shares) as at the Latest Practicable Date; and (b) the Trustee which held 51,464,000 Shares under the Share Award Scheme (representing approximately 0.43% of the issued Shares) as at the Latest Practicable Date shall abstain from voting in respect of the relevant resolution at the EGM.

In respect of the Underlying Transaction and Whitewash Waiver, (a) the Management Group, who held an aggregate of approximately 29.90% of the total issued Shares as at the Latest Practicable Date, and any other Shareholders who are involved in or interested in the Underlying Transaction and the Whitewash Waiver shall abstain from voting in respect of the relevant resolutions at the EGM; and (b) the Trustee will not exercise any voting rights in respect of any Shares held by it under the Share Award Scheme, and as such, the Trustee shall also abstain from voting in respect of the relevant resolutions at the EGM.

As Mr. Cai, Mr. ZHANG Cuilong, Dr. LI Chunlei, Mr. WANG Huaiyu, Mr. WANG Zhenguo, Mr. PAN Weidong, Dr. WANG Qingxi, Mr. CHAK Kin Man and Dr. JIANG Hao have material interests in the Underlying Transaction and/or the Whitewash Waiver, each of them has abstained from voting on the Board resolutions for approving the Underlying Transaction and the Whitewash Waiver. Save as the aforesaid, no other Director has any material interest in the Underlying Transaction and/or the Whitewash Waiver and therefore was required to abstain from voting on the Board resolutions approving the Underlying Transaction and Whitewash Waiver.

For the purpose of determining the list of Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 31 October 2023 to Friday, 3 November 2023 both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the EGM to be held on Friday, 3 November 2023, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Monday, 30 October 2023.

A notice convening the EGM to be held at Suite 3206, 32/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong on Friday, 3 November 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A proxy form for use at the EGM or any adjournment thereof is enclosed with this circular. Whether or not you are able to attend the EGM or any adjournment thereof, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the

LETTER FROM THE BOARD

time appointed for the holding of the EGM or any adjournment thereof. Completion and return of a proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire.

WARNING

Shareholders and potential investors of the Company should note that the grant and Exercise of the Share Options and the Whitewash Waiver are subject to the satisfaction of the conditions set out in the section headed “Grant Conditions of the Share Options” in this letter from the Board and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company, and are recommended to consult their professional advisers if they are in any doubt about their position and actions that they should take.

11. VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

12. RECOMMENDATION

The Board (including all the independent non-executive Directors but excluding all the Executive Directors who have an interest in the Underlying Transaction and/or Whitewash Waiver) considers that the terms of Mr. Cai’s Share Options, the Underlying Transaction and the Whitewash Waiver are fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board (including all the independent non-executive Directors but excluding all the Executive Directors who have an interest in the Underlying Transaction and/or Whitewash Waiver) recommends the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve Mr. Cai’s Share Options, the Underlying Transaction and the Whitewash Waiver.

The Independent Board Committee, having taken into account the advice from Nuada, considers that the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders as a whole and taking into account the independent advice of Nuada, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 21 to 22 of this circular which contains its recommendation to the Independent Shareholders on the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder; (ii) the letter of advice from Nuada set out on pages 23 to 54 of this circular which contains, amongst other matters, its advice to the Independent Board Committee in relation to the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder, and the principal factors and reasons considered by it in arriving at such advice.

13. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices and the Notice of EGM of this circular.

Yours faithfully,
By order of the Board
CSPC Pharmaceutical Group Limited
CAI Dongchen
Chairman



CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1093)

9 October 2023

To the Independent Shareholders

Dear Sir/Madam,

**GRANT OF SHARE OPTIONS UNDER THE SHARE OPTION SCHEME
AND
APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of the Company dated 9 October 2023 (the “**Circular**”), of which this letter forms part. Terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned, and to recommend how the Independent Shareholders should vote at the EGM.

Nuada Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of the Independent Financial Adviser’s advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 23 to 54 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 7 to 20 to the Circular and the additional information set out in the appendices to the Circular.

Having taken into account the advice of the Independent Financial Adviser, we consider that the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Yours faithfully,
the Independent Board Committee

Mr. WANG Bo
Independent
Non-executive
Director

Mr. CHEN
Chuan
Independent
Non-executive
Director

Prof. WANG
Hongguang
Independent
Non-executive
Director

Mr. AU Chun
Kwok Alan
Independent
Non-executive
Director

Mr. LAW
Cheuk Kin
Stephen
Independent
Non-executive
Director

Ms. LI Quan
Independent
Non-executive
Director

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Nuada Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder prepared for the purpose of inclusion in this circular.

Nuada Limited

Unit 1606, 16/F
OfficePlus @Sheung Wan
93-103 Wing Lok Street
Sheung Wan, Hong Kong
香港上環永樂街93-103號
協成行上環中心16樓1606室

9 October 2023

*To the Independent Board Committee and
the Independent Shareholders of
CSPC Pharmaceutical Group Limited*

Dear Sir/Madam,

GRANT OF SHARE OPTIONS UNDER THE SHARE OPTION SCHEME AND APPLICATION FOR WHITEWASH WAIVER

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 Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder, the details of which are set out in the Letter from the Board (the “**Board Letter**”) in the circular dated 9 October 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Conditional grant of Share Options under the Share Option Scheme

On 4 September 2023, the Company has conditionally granted the Share Options to the Management Grantees to subscribe for an aggregate of 50,000,000 Shares under the Share Option Scheme at the exercise price of HK\$5.98 per Share, subject to acceptances by the Management Grantees after the Grant Conditions have been fulfilled.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Application for Whitewash Waiver

As at the Latest Practicable Date, the Management Group held an aggregate of 3,558,899,663 Shares, representing approximately 29.90% of the total number of issued Shares as at the Latest Practicable Date. Upon completion of the Exercise of the Share Options, the Management Group will be interested in 3,608,899,663 Shares, representing (a) approximately 30.32% of the total number of issued Shares as at the Latest Practicable Date; and (b) approximately 30.19% of the total number of issued Shares as enlarged by the issuance of the Share Option Shares.

The Exercise of the Share Options in full will cause the aggregate shareholding interests in the total number of issued Shares held by the Management Group to increase from approximately 29.90% (of the total number of issued Shares as at the Latest Practicable Date) to approximately 30.19% (of the total number of issued Shares as enlarged by the issuance of the Share Option Shares). Accordingly, the Management Grantees would be obliged to make a mandatory general offer pursuant to Rule 26.1 of the Takeovers Code to the Shareholders for all the issued Shares of the Company not already owned or agreed to be acquired by the Management Group if their aggregate shareholding interests in the Group is increased to 30.0% or more of the total number of issued Shares as a result of the allotment and issuance of the Share Option Shares to the Management Grantees, unless the Whitewash Waiver is granted by the Executive.

In this regard, an application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the conditions that the respective resolutions relating to the Underlying Transaction on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll in accordance with the requirements of the Takeovers Code.

The Executive has agreed, subject to the respective resolutions relating to the Underlying Transaction on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll, to waive the obligation of the Management Grantees to make a mandatory general offer as a result of the allotment and issuance of the Share Options Shares to the Management Grantees by the Company.

The EGM will be held to approve, among other things, Mr. Cai's Share Options, the Underlying Transaction and Whitewash Waiver by way of poll.

In respect of Mr. Cai's Share Options, (a) Mr. Cai and Mr. Cai's Related Persons which held 2,830,103,350 Shares in aggregate (representing approximately 23.78% of the issued Shares) as at the Latest Practicable Date; and (b) the Trustee which held 51,464,000 Shares under the Share Award Scheme (representing approximately 0.43% of the issued Shares) as at the Latest Practicable Date shall abstain from voting in respect of the relevant resolution at the EGM.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In respect of the Underlying Transaction and Whitewash Waiver, (a) the Management Group, who held an aggregate of approximately 29.90% of the total issued Shares as at the Latest Practicable Date, and any other Shareholders who are involved in or interested in the Underlying Transaction and the Whitewash Waiver shall abstain from voting in respect of the relevant resolutions at the EGM; and (b) the Trustee will not exercise any voting rights in respect of any Shares held by it under the Share Award Scheme, and as such, the Trustee shall also abstain from voting in respect of the relevant resolutions at the EGM.

As Mr. Cai, Mr. ZHANG Cuilong, Dr. LI Chunlei, Mr. WANG Huaiyu, Mr. WANG Zhenguo, Mr. PAN Weidong, Dr. WANG Qingxi, Mr. CHAK Kin Man and Dr. JIANG Hao have material interests in the Underlying Transaction and/or the Whitewash Waiver, each of them has abstained from voting on the Board resolutions for approving the Underlying Transaction and the Whitewash Waiver. Save as the aforesaid, no other Director has any material interest in the Underlying Transaction and/or the Whitewash Waiver and therefore was required to abstain from voting on the Board resolution approving the Underlying Transaction and Whitewash Waiver.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. WANG Bo, Mr. CHEN Chuan, Prof. WANG Hongguang, Mr. AU Chun Kwok Alan, Mr. LAW Cheuk Kin Stephen and Ms. LI Quan, in compliance with Rule 2.8 of the Takeovers Code, has been formed to advise the Independent Shareholders on the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder. We, Nuada Limited, have been appointed by the Board with the approval of the Independent Board Committee as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We, Nuada Limited, do not have any previous financial adviser and/or independent financial adviser engagement with the Company in the past two years. We are independent from, and are not associated or connected with the Company, the Management Grantees or any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees or benefits from the abovementioned parties or any party acting, or presumed to be acting, in concert with any of them, any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 2 of the Takeovers Code and Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to give independent advice in respect of the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder to the Independent Board Committee and the Independent Shareholders in accordance with the Takeovers Code.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information and representations provided by the Directors and the Management, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Independent Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

The Circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder and the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

Our review and analysis were based upon, among other things, (i) the Announcement; (ii) the Circular; (iii) the annual report of the Company (“**Annual Report 2020**”) for the financial year ended 31 December 2020 (“**FY2020**”); (iv) the annual report of the Company (“**Annual Report 2021**”) for the financial year ended 31 December 2021 (“**FY2021**”); (v) the annual report of the Company (“**Annual Report 2022**”) for the financial year ended 31 December 2022 (“**FY2022**”); and (vi) the interim report of the Company (“**Interim Report 2023**”) for the six months ended 30 June 2023 (“**FP2023**”).

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with the requirements of the Takeovers Code and Rule 13.80 of the Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Independent Shareholders as a result of the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder. 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. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

1. Background information of the Group

(a) *Principal business of the Group*

With reference to the Board Letter and according to the Management, the Group is principally engaged in the manufacture and sale of pharmaceutical products in the PRC and the Group's reportable segments are as follows:

- (i). Finished drugs ("**Finished Drug Business**") — research and development, manufacture and sale of pharmaceutical products and license fee income;
- (ii). Bulk products ("**Bulk Product Business**") — manufacture and sale of vitamin C and antibiotic products in bulk powder form; and
- (iii). Functional food and others — manufacture and sale of functional food products (including caffeine food additives and vitamin C buccal tablets), and provision of healthcare service and others.

(b) *Financial information of the Group*

Set out below is a summary of the Group's operating results and financial position extracted from the Company's Annual Report 2020, Annual Report 2021, Annual Report 2022 and Interim Report 2023.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Table 1: Consolidated income statement of the Group

	For the six months ended 30 June		For the year ended 31 December		
	2023	2022	2022	2021	2020
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (audited)	RMB'000 (audited)	RMB'000 (audited)
Revenue	16,080,412	15,610,026	30,936,904	27,866,870	24,942,204
Finished drugs	12,933,714	12,292,908	24,520,067	22,681,444	20,404,678
Bulk products	1,969,817	2,180,074	4,450,936	3,819,209	3,231,911
Functional food and others	1,176,881	1,137,044	1,965,901	1,366,217	1,305,615
Gross profit	11,237,639	11,338,484	22,256,414	21,135,094	18,685,322
Selling and distribution expenses	(4,902,391)	(5,410,159)	(10,337,423)	(10,443,422)	(9,377,620)
Administrative expenses	(535,640)	(564,819)	(1,172,842)	(1,009,824)	(945,713)
Research and development expenses	(2,303,611)	(1,884,077)	(3,986,516)	(3,432,590)	(2,889,837)
Profit before tax	3,681,554	3,719,460	7,582,261	6,847,096	6,391,023
Profit for the year/ period	3,058,040	3,027,083	6,232,050	5,688,124	5,229,010
Profit for the year/ period attributable to owners of the Company	2,966,987	2,966,205	6,091,390	5,605,185	5,159,655

Financial performance for FY2020

The Group recorded a revenue of approximately RMB24.94 billion for FY2020, which represented an increase of approximately 12.85% as compared with that of approximately RMB22.10 billion for the financial year ended 31 December 2019 (“FY2019”). According to the Annual Report 2020 and the Management, Finished Drug Business was the major growth driver to the Group with revenue increasing by approximately 13.71%, from approximately RMB17.94 billion for FY2019 to approximately RMB20.40 billion for FY2020 mainly due to growth in sales volume of certain finished drug products including drugs for the therapeutic areas of oncology and nervous system. Having benefited from the growth of the revenue, the gross profit also increased from approximately RMB15.91 billion for FY2019 to approximately RMB18.69 billion for FY2020, which represented an increase of approximately 17.47% and the gross profit margin remained stable and recorded approximately 74.91% for FY2020 as compared to that of approximately 71.98% for FY2019.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The selling and distribution expenses of the Group increased from approximately RMB8.71 billion for FY2019 to approximately RMB9.38 billion for FY2020, which represented an increase of approximately 7.69%. According to the Annual Report 2020 and the Management, such increase was primarily attributable to (i) increased efforts in marketing and academic promotion such as holding conferences and meetings to introduce and promote the knowledge of the finished drug products (including clinical data and drug application) among doctors and experts in the medical field for key finished drug products and newly launched finished drug products; and (ii) expansion of sales force of finished drugs that the Group established designated sales teams with specific knowledge of newly launched finished drug products.

The administrative expenses increased from approximately RMB748.51 million for FY2019 to approximately RMB945.71 million for FY2020, which represented an increase of approximately 26.35%. According to the Annual Report 2020 and the Management, such increase was primarily attributable to the expanded scale of operation and management function of the Group.

The research and development expenses increased from approximately RMB2.0 billion for FY2019 to approximately RMB2.89 billion for FY2020, which represented an increase of approximately 44.5%. According to the Annual Report 2020 and the Management, such increase was primarily attributable to (i) increased number of products under development; and (ii) increased spending on ongoing and newly initiated clinical trials.

With reference to the Annual Report 2020, there was occurrence of gain on disposal of subsidiaries for approximately RMB314.90 million for FY2020 (FY2019: nil). Based on the above and as the increase of gross profit of the Group for FY2020 exceeded the increase of (i) selling and distribution expenses; (ii) administrative expenses; and (iii) research and development expenses of the Group for FY2020 as mentioned above, the Group recorded increase of profit for the year from approximately RMB3.73 billion for FY2019 to that of approximately RMB5.23 billion for FY2020, which represented an increase of approximately 40.21%. The profit for the year attributable to owners of the Company increased from approximately RMB3.71 billion for FY2019 to that of approximately RMB5.16 billion for FY2020, which represented an increase of approximately 39.08%.

Financial performance for FY2021

The Group recorded a revenue of approximately RMB27.87 billion for FY2021, which represented an increase of approximately 11.75% as compared with that of approximately RMB24.94 billion for FY2020. According to the Annual Report 2021 and the Management, such increase was mainly due to revenue growth from (i) the Finished Drug Business from approximately RMB20.40 billion for FY2020 to approximately RMB22.68 billion for FY2021 mainly attributable to the growth in sales volume of certain existing finished drug products (including drugs for the therapeutic area of oncology) and growth in sales volume generated from the newly launched finished drugs products; and (ii) the Bulk Product Business from approximately RMB3.23 billion for FY2020 to approximately RMB3.82 billion for FY2021 mainly attributable to the growth in sales volume and increase in selling price of vitamin C products and increase in sales volume of antibiotics products.

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Due to the increased of revenue of the Group for FY2021, the gross profit of the Group increased from approximately RMB18.69 billion for FY2020 to approximately RMB21.14 billion for FY2021, which represented an increase of approximately 13.11% and the gross profit margin of the Group was approximately 75.84% for FY2021, which is stable as compared to that of approximately 74.91% for FY2020.

The selling and distribution expenses of the Company increased from approximately RMB9.38 billion for FY2020 to approximately RMB10.44 billion for FY2021, which represented an increase of approximately 11.30%. According to the Annual Report 2021 and the Management, such increase was primarily attributable to (i) increased efforts in marketing and academic promotion such as holding conferences and meetings to introduce and promote the knowledge of the finished drug products (including clinical data and drug application) among doctors and experts in the medical field for key finished drug products and newly launched finished drug products; and (ii) expansion of sales force of finished drugs.

The administrative expenses slightly increased from approximately RMB0.95 billion for FY2020 to approximately RMB1.01 billion for FY2021, which represented an increase of approximately 6.32%. According to the Annual Report 2021 and the Management, such increase was primarily attributable to the expanded scale of operation of the Group.

The research and development expenses increased from approximately RMB2.89 billion for FY2020 to approximately RMB3.43 billion for FY2021, which represented an increase of approximately 18.69%. According to the Annual Report 2021 and the Management, such increase was primarily attributable to increased spending on ongoing and newly initiated clinical trials.

As the increase of gross profit of the Group for FY2021 slightly exceeded the increase of (i) selling and distribution expenses; (ii) administrative expenses; and (iii) research and development expenses of the Group for FY2021 as mentioned above, the Group recorded slight increase of profit for the year from approximately RMB5.23 billion for FY2020 to approximately RMB5.69 billion for FY2021, which represented an increase of approximately 8.80%. The profit for the year attributable to owners of the Company increased slightly from approximately RMB5.16 billion for FY2020 to approximately RMB5.61 billion for FY2021, which represented an increase of approximately 8.72%.

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Financial performance for FY2022

The Group recorded a revenue of approximately RMB30.94 billion for FY2022, which represented an increase of approximately 11.02% as compared with that of approximately RMB27.87 billion for FY2021. According to the Annual Report 2022 and the Management, such increase was mainly due to increase in revenue generated from (i) Finished Drug Business from approximately RMB22.68 billion for FY2021 to approximately RMB24.52 billion for FY2022 mainly attributable to the growth in sales volume of certain existing finished drug products (including anti-infective and drugs for the therapeutic area of nervous system) and newly launched finished drug products; (ii) Bulk Product Business from approximately RMB3.82 billion for FY2021 to approximately RMB4.45 billion for FY2022 mainly attributable growth in sales volume of vitamin C products and antibiotics products; and (iii) the functional food and others business segment of the Group increased from approximately RMB1.37 billion for FY2021 to approximately RMB1.97 billion for FY2022 mainly attributable to increase in selling price and growth in sales volume of caffeine products.

The gross profit of the Group increased from approximately RMB21.14 billion for FY2021 to approximately RMB22.26 billion for FY2022, which represented an increase of approximately 5.30% and the gross profit margin of the Group decreased from approximately 75.84% for FY2021 to approximately 71.94% for FY2022. According to the Annual Report 2022 and the Management, such decrease was mainly attributable to the decline in selling prices of certain finished drug products and decline in selling prices of vitamin C products, which are key products of Bulk Product Business, due to market competition during the year.

The selling and distribution expenses of the Company decreased slightly from approximately RMB10.44 billion for FY2021 to approximately RMB10.34 billion for FY2022, which represented a slight decrease of approximately 0.96%. According to the Annual Report 2022 and the Management, such decrease was primarily attributable to the Group enhanced the efficiency of the marketing activities.

The administrative expenses increased from approximately RMB1.01 billion for FY2021 to approximately RMB1.17 billion for FY2022, which represented an increase of approximately 15.84%. According to the Annual Report 2022 and the Management, such increase was mainly due to the expanding operation of the Group and employee share-based compensation expense recognised in respect of the share awards granted to selected employees of the Group by Key Honesty Limited (a shareholder of the Company) during FY2022.

The research and development expenses increased from approximately RMB3.43 billion for FY2021 to approximately RMB3.99 billion for FY2022, which represented an increase of approximately 16.33%. According to the Annual Report 2022 and the Management, such increase was primarily attributable to increased spending on ongoing and newly initiated clinical trials.

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Based on the above, the Group recorded increase of profit for the year from approximately RMB5.69 billion for FY2021 to approximately RMB6.23 billion for FY2022, which represented an increase of approximately 9.49% and the profit for the year attributable to owners of the Company increased from approximately RMB5.61 billion for FY2021 to approximately RMB6.09 billion for FY2022, which represented an increase of approximately 8.56%.

Financial performance for FP2023

The Group recorded a revenue of approximately RMB16.08 billion for FP2023, which remained stable as compared to that of approximately RMB15.61 billion for the six months ended 30 June 2022 (“**FP2022**”). The gross profit of the Group recorded approximately RMB11.24 billion for FP2023, which was also stable as compared to that of approximately RMB11.34 billion for FP2022. The gross profit margin of the Group remained stable for FP2023 and recorded approximately 69.88%, as compared to that of approximately 72.64% for FP2022.

The selling and distribution expenses of the Company decreased from approximately RMB5.41 billion for FP2022 to approximately RMB4.90 billion for FP2023, which represented a decrease of approximately 9.43%. According to the Interim Report 2023 and the Management, such decrease was primarily attributable to the Group enhanced the efficiency of the marketing activities despite the Group continued to expand its market coverage and actively promote the newly launched finished drug products.

The research and development expenses increased from approximately RMB1.88 billion for FP2022 to approximately RMB2.30 billion for FP2023, which represented an increase of approximately 22.34%. According to the Interim Report 2023 and the Management, such increase was primarily attributable to increased spending on ongoing and newly initiated clinical trials.

As the decrease of selling and distribution expenses of the Group for FP2023 as mentioned above offset the increase of the research and development expenses of the Group for FP2023 as mentioned above, the profit for the period of the Group (FP2022: approximately RMB3.03 billion and FP2023: approximately RMB3.06 billion) and the profit for the period attributable to owners of the Company (FP2022: approximately RMB2.97 billion and FP2023: approximately RMB2.97 billion) both remained stable.

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Financial position of the Group as at 31 December 2022 and 30 June 2023

Table 2: Financial position of the Group

	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (audited)
Non-current assets	19,291,668	17,812,614
Property, plant and equipment	10,037,227	9,582,060
Right-of-use assets	1,321,356	1,394,859
Investment property	61,085	62,737
Goodwill	234,904	234,904
Intangible assets	2,264,522	1,908,112
Interests in associates	678,042	685,290
Interests in joint ventures	707,227	709,482
Other financial assets	2,532,672	2,125,574
Deferred tax assets	146,351	113,026
Deposits, prepayments and other receivables	568,282	796,570
Bank deposits	740,000	200,000
Current assets	24,381,566	23,957,160
Inventories	2,751,952	2,554,861
Trade receivables	5,415,329	3,937,967
Deposits, prepayments and other receivables	659,499	693,224
Bills receivables	3,006,209	2,602,551
Amounts due from related companies	353,128	195,643
Amounts due from joint ventures	104,759	100,048
Structured bank deposits	1,625,425	3,574,859
Bank deposits, balances and cash	10,465,265	10,298,007
Current liabilities	9,025,669	8,958,000
Trade payables	1,922,553	1,507,986
Other payables	5,780,042	5,355,516
Contract liabilities	233,509	799,458
Bills payables	440,687	502,079
Amounts due to related companies	33,638	104,938
Amounts due to joint ventures	115,518	130,860
Lease liabilities	153,107	142,071
Tax liabilities	291,245	261,608
Bank borrowings	55,370	153,484
Net current assets	15,355,897	14,999,160
Non-current liabilities	1,135,678	1,169,899
Other payables	372,317	270,917
Lease liabilities	186,885	258,039
Deferred tax liabilities	556,576	611,993
Bank borrowings	19,900	28,950
Net assets	33,511,887	31,641,875
Total equity attributable to owners of the Company	31,819,480	30,197,534

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As stated in the Interim Report 2023, as at 30 June 2023, current assets of the Group amounted to approximately RMB24.38 billion, which remained stable as compared to that of approximately RMB23.96 billion as at 31 December 2022 and the bank deposits, balances and cash recorded approximately RMB10.47 billion as at 30 June 2023 (approximately RMB10.30 billion as at 31 December 2022).

The non-current assets of the Group increased from approximately RMB17.81 billion as at 31 December 2022 to approximately RMB19.29 billion as at 30 June 2023, mainly due to (i) the property, plant and equipment of the Group increased from approximately RMB9.58 billion as at 31 December 2022 to approximately RMB10.04 billion as at 30 June 2023; (ii) the intangible assets (which consist of (a) development costs internally generated or techniques acquired from third parties for the development of products and production technology; (b) research and development projects acquired through business combination and (c) consideration paid by the Group for obtaining product licenses and patents of drugs or drug candidates according to the Management and Annual Report 2022) increased from approximately RMB1.91 billion as at 31 December 2022 to approximately RMB2.26 billion as at 30 June 2023; and (iii) other financial assets (which consists of unlisted investments in partnerships and funds, listed equity securities and unlisted equity securities) increased from approximately RMB2.13 billion as at 31 December 2022 to approximately RMB2.53 billion as at 30 June 2023.

The current liabilities of the Group recorded approximately RMB9.03 billion as at 30 June 2023, which remained stable as compared to that of approximately RMB8.96 billion as at 31 December 2022. The non-current liabilities of the Group also remained stable (approximately RMB1.17 billion as at 31 December 2022 and approximately RMB1.14 billion as at 30 June 2023).

Based on the above, the net assets of the Group increased slightly from approximately RMB31.64 billion as at 31 December 2022 to approximately RMB33.51 billion as at 30 June 2023. The equity attributable to owners of the Company also increased slightly from approximately RMB30.20 billion as at 31 December 2022 to approximately RMB31.82 billion as at 30 June 2023.

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(c) *Industry outlook of the principal business of the Group*

As the Group is principally engaged in manufacture and sales of pharmaceutical products in the PRC, we made reference to the official statistics and polices in the PRC in order to understand the development of the pharmaceutical industry in the PRC. According to the statistics available from the National Bureau of Statistics of China (“**National Bureau**”), set out below are the health expenditure per capita in the PRC in recent years:

Table 3: Health expenditure per capita in the PRC

	2021	2020	2019	2018	2017
Health expenditure per capita (RMB)	5,439.97	5,112.34	4,669.34	4,206.74	3,756.72

Source: National Bureau’s website (data.stats.gov.cn)

As shown in the table above, the health expenditure per capita was in an increasing trend from 2017 to 2021 and increased from approximately RMB3,757 per year in 2017 to approximately RMB5,440 per year in 2021, which represented a compound annual growth rate of approximately 9.70%.

We also made reference to the 14th Five-Year Plan for the Development of the Pharmaceutical Industry (the “**Pharmaceutical Industry Development Plan**”) issued by the PRC official authorities including the National Development and Reform Commission in December 2021 (https://www.gov.cn/zhengce/zhengceku/2022-01/31/content_5671480.htm). According to the Pharmaceutical Industry Development Plan, the PRC official authorities targeted to maintain average annual growth rate of operating income and total profit of the pharmaceutical industry in the PRC remains above 8% during 2021 to 2025. On top of the objectives to strengthen the technology development and encourage the research and development of innovative products within the pharmaceutical industry in the PRC, the Pharmaceutical Industry Development Plan also indicated that PRC official authorities will implement supportive policies such as deduction of research and development expenses and simplified collection of value-added tax on anti-cancer drugs and rare disease drugs.

Based on the abovementioned increasing trend of the health expenditure per capita in the PRC in recent years and the supportive intentions of the PRC official authorities towards the pharmaceutical industry, we are of the view and concur with the Management’s view that the industry outlook of the pharmaceutical industry in the PRC is positive.

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2. Principal terms of the Underlying Transaction and grant conditions of the Share Options

(a) *Principal terms of the Underlying Transaction*

Details of the Underlying Transaction are set out under the paragraph headed “2. GRANT OF SHARE OPTIONS UNDER THE SHARE OPTION SCHEME” in the Board Letter, which are summarised below:

Date of Grant:	4 September 2023
Number of Share Options conditionally granted:	Share Options entitling the holders thereof to subscribe for a total of 50,000,000 Shares, representing approximately 0.420% of the total number of issued Shares immediately before the completion of the Exercise of the Share Options and approximately 0.418% of the total number of issued Shares as enlarged by the issuance of the Share Option Shares, respectively (assuming there is no other change in the number of issued Shares of the Company)
Closing price per Share on the Date of Grant:	HK\$5.98
Consideration of the Share Options:	HK\$1.00 to be paid by each Management Grantee upon acceptance of his respective Share Options
Exercise price of the Share Options:	HK\$5.98 per Share, representing the higher of: <ul style="list-style-type: none">(i) the closing price of HK\$5.98 per Share as stated in the Stock Exchange’s daily quotations sheet on the Date of Grant (i.e. the date of the Announcement); and(ii) the average closing price of HK\$5.91 per Share as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the Date of Grant (i.e. the date of the Announcement).
Exercise period of the Share Options:	Subject to fulfillment of the Grant Conditions, the vesting conditions and vesting period as mentioned below, the Share Options shall be exercisable within a period of 10 years from the Date of Grant (i.e. 4 September 2023 to 3 September 2033, both days inclusive).

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Vesting conditions and vesting period of the Share Options:

Vesting of the Share Options are subject to the following conditions:

First Tranche: Conditional upon the Group having achieved a single-digit percentage growth on the amount of the underlying profit attributable to Shareholders (i.e. the profit attributable to Shareholders after excluding certain non-operating items as determined by the Board) for the year ended 31 December 2023 as compared to that for the year ended 31 December 2022, then 50% of the Share Options will be vested on 1 April 2024.

Second Tranche: Conditional upon the Group having achieved a double-digit percentage growth on the amount of the underlying profit attributable to Shareholders (i.e. the profit attributable to Shareholders after excluding certain non-operating items as determined by the Board) for the year ended 31 December 2024 as compared to that for the year ended 31 December 2023, then 50% of the Share Options will be vested on 1 April 2025.

If the condition referred to above in respect of the first tranche or the second tranche cannot be satisfied, the Share Options under the relevant tranche shall not be vested.

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The remuneration committee of the Company is of the view that such vesting period is appropriate in the circumstances taking into account that the conditional grant of the Share Options is for the purpose of providing incentives and rewards to the Management Grantees for their continuous contributions to the growth and development of the Group.

Conditions precedent:

The conditions which must be fulfilled before the Exercise of the Share Options are set out in the section headed “Grant Conditions of the Share Options” in the Board Letter. The Grant Conditions cannot be waived by the Company or any of the Management Grantees.

Financial assistance:

The Group has not provided any financial assistance to the Management Grantees to facilitate the purchase of the Share Option Shares upon the Exercise of the Share Options.

Clawback Mechanism:

If a Management Grantee ceases to be an employee, director or executive of any member of the Group (the “**Relevant Company**”) by reason of the termination of his employment, directorship or office on the ground that he/she has been guilty of misconduct, or has committed any act of bankruptcy, or has become insolvent, or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which the Relevant Company would be entitled to terminate his employment, directorship or office (whether under law or contract), the Share Options granted to such Management Grantee will lapse automatically and will not be exercisable (to the extent not already exercised).

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If a Management Grantee ceases to be a participant of the Share Option Scheme (i) for any reason other than on his death or the termination of his employment, directorship, office or appointment on one or more of the grounds specified in the preceding paragraph above; or (ii) by reason of his death, such Management Grantee (or his personal representative(s) in the case of death) may exercise such Management Grantee's Share Options up to his entitlement at the date of cessation or death (to the extent exercisable but not already exercised) within a period of 3 months and 12 months respectively following the date of cessation or death (as the case may be).

The number of Share Options conditionally granted to each of the Management Grantees is set out below:

Name of Management Grantee	Position in the Company	Number of Share Options Conditionally granted
CAI Dongchen	Chairman and Executive Director	18,000,000
ZHANG Cuilong	Vice-Chairman, Chief Executive Officer and Executive Director	8,000,000
LI Chunlei	Executive Director	6,000,000
WANG Huaiyu	Executive Director	3,000,000
WANG Zhenguo	Executive Director	3,000,000
PAN Weidong	Executive Director	3,000,000
WANG Qingxi	Executive Director	3,000,000
CHAK Kin Man	Executive Director	3,000,000
JIANG Hao	Executive Director	3,000,000
Total		50,000,000

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Grant conditions of the Share Options

With reference to the Board Letter, the grant and Exercise of the Share Options are subject to the fulfillment of the following conditions precedent (the “**Grant Conditions**”):

- (i) Mr. Cai’s Share Options being approved by more than 50% of the votes cast by the Shareholders (other than Mr. Cai, Mr. Cai’s Related Persons and the Trustee who are required to abstain from voting under the Listing Rules) at the EGM by way of poll in accordance with Chapter 17 of the Listing Rules;
- (ii) the Whitewash Waiver being granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code to the Management Grantees of the obligation to make a mandatory general offer for all the issued Shares and other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company (if any) not already owned or agreed to be acquired by the Management Group as a result of the allotment and issuance of the Share Option Shares to the Management Grantees and such Whitewash Waiver not having been withdrawn; and
- (iii) the respective resolutions relating to the Underlying Transaction on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll.

None of the Grant Conditions set out above can be waived by the Company or any of the Management Grantees. The Management Grantees do not reserve the right to waive any of the Grant Conditions. If any of the Grant Conditions is not fulfilled, the Exercise of the Share Options cannot take place and the grant of Share Options will be cancelled.

(b) Fairness of exercise price of the Share Options

The exercise price of the Share Options of HK\$5.98 per Share, representing the higher of: (i) the closing price of HK\$5.98 per Share as stated in the Stock Exchange’s daily quotations sheet on the Date of Grant (i.e. the date of the Announcement); and (ii) the average closing price of HK\$5.91 per Share as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the Date of Grant (i.e. the date of the Announcement). According to the Management, the determination of exercise price of the Share Options is in compliance with the requirements of Rule 17.03E of the Listing Rules. As no discount had been provided to the Management Grantees, we are of the view and concur with the Management’s view that the exercise price of the Share Options is fair and reasonable.

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(c) *Comparable grant of share options*

In order to evaluate the fairness and reasonableness of the terms of the Underlying Transaction, we have, on a best effort basis, identified an exhaustive list of grant of share options by the companies listed on main board of the Stock Exchange who have similar principal business as the Group during the period from 5 September 2022 to 4 September 2023, being twelve-month period immediately prior to the Date of Grant. Based on the aforesaid criteria, we identified four comparable grants of share options (the “**Comparable Grants**”). We consider that the period under review, being twelve months, is adequate to provide a fair and representative sample for analysis of recent grant of share options to compare with the Underlying Transaction.

Shareholders should note that the Comparable Grants have different market capitalisations as compared to those of the Company and the sizes of the shares to be granted to the participants under the Comparable Grants vary. However, we still consider the Comparable Grants to be fair and representative in assessing the fairness and reasonableness of the terms of the Underlying Transaction, after taking into account that (a) the Comparable Grants were engaged in similar principal business as the Group; and (b) a sufficient number of the Comparable Grants has been identified, which could provide a general reference to the terms of grant of share options. The following table sets out details of the Comparable Grants:

Table 4: Comparable Grants

					Whether the exercise price is premium/discount over/to the closing price on the date of grant or average closing price for five trading days immediately preceding the date of grant	Vesting conditions relating to the financial performance target of the company
Date of grant	Company name (Stock code)	Market capitalisation (HK\$ million) (Note 1)	Principal business			
1 13 September 2022	HUTCHMED (China) Limited (13)	20,712	Manufacturing and sale of drugs		No premium or discount and the exercise price is same as the closing price on the date of grant	No

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	Date of grant	Company name (Stock code)	Market capitalisation (HK\$ million) (Note 1)	Principal business	Whether the exercise price is premium/discount over/to the closing price on the date of grant or average closing price for five trading days immediately preceding the date of grant	Vesting conditions relating to the financial performance target of the company
2.	2 December 2022	Lee's Pharmaceutical Holdings Limited (950)	781	Development, manufacturing, marketing and sales of pharmaceutical products	No premium or discount and the exercise price is same as the closing price on the date of grant	No
3.	15 December 2022	Zhaoke Ophthalmology Limited (6622)	1,988	Development, manufacturing and marketing of ophthalmic drugs	No premium or discount and the exercise price is same as average closing price for five trading days immediately preceding the date of grant	Yes
4.	3 May 2023	Endurance RP Limited (575)	246	Biopharma and investment businesses	Premium to the closing price on the date of grant and average closing price for five trading days immediately preceding the date of grant (Note 2)	No
	4 September 2023	The Company	70,348	Manufacture and sales of pharmaceutical products	No premium or discount and the exercise price is same as the closing price on the Date of Grant	Yes

Source: the Stock Exchange's website (www.hkex.com.hk)

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Notes:

1. Based on the average closing price of the share of the respective Comparable Grant as quoted on the Stock Exchange for the five consecutive trading days prior to the Date of Grant and their respective issued shares as quoted on the published monthly return for August 2023 available on the website of the Stock Exchange.
2. With reference to the announcement of Endurance RP Limited (“**Endurance RP**”) dated 4 May 2023, the closing price of share on its date of grant (i.e. HK\$0.055) and the average closing price of share on the five business days immediately preceding its date of grant (i.e. HK\$0.056) have been below the nominal value of share (i.e. HK\$0.078), accordingly the exercise price of the share options represented the nominal value of share of Endurance RP and we consider it as outlier.

As shown in the table above, except one Comparable Grant as outlier (please refer to note 2 to the above table for reasons), all of the Comparable Grants determined the exercise price in compliance with the requirements of Rule 17.03E of the Listing Rules and provide no discounts or premiums to respective grantees, which is same as the Underlying Transaction and only one out of four Comparable Grants has vesting conditions relating to the performance target of its future financial performance. Accordingly, we are of the view that the terms of the Underlying Transaction are fair and reasonable.

3. Information of the Management Grantees

As stated in the Board Letter, the Management Grantees are the chairman, Directors, chief executives and/or substantial shareholder of members of the Group. We have reviewed the information furnished by the Management regarding the background and working experience of the Management Grantees and noted that their expertise and experience would continuously contribute to the business development of the Group. Details of the Management Grantees are set out below:

According to the Directors’ report of the Annual Report 2022, Mr. Cai, the chairman of the Company, has been an executive Director of the Company since April 1997. He ceased to be the chief executive officer of the Company on 27 May 2022. Mr. Cai is also the chairman of the nomination committee and a director of certain subsidiaries of the Company. Mr. Cai holds a master of business administration degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry. Mr. Cai is a substantial shareholder of the Company. Mr. Cai is also a director of True Ally Holdings Limited and Massive Giant Group Limited, both are substantial shareholders of the Company.

Based on the information provided by Management, Mr. Cai is responsible for formulating the business strategies and long-term development plan and goals of the Group. He provides leadership and guidance to the Board in executing business plans and achieving the Company’s objectives. Mr. Cai identifies key areas in both business development and risk aspects that require the attention of the Board, ensuring that these issues are effectively addressed. Additionally, he serves as a representative of the Company, actively fostering and strengthening relationships with external parties and within the pharmaceutical industry.

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According to the Directors' report of the Annual Report 2022, Mr. Zhang Cuilong (“**Mr. Zhang**”), being the vice-chairman of the Company, has been an executive director of the Company since July 2018. He was appointed as the chief executive officer of the Company on 27 May 2022. Before this appointment, Mr. Zhang was the rotating chief executive officer of the Company. Mr. Zhang is also a director of certain subsidiaries of the Company. Mr. Zhang holds a bachelor's degree in pharmacology from Hebei Medical College (now known as Hebei Medical University) and has extensive technical, marketing and management experience in the pharmaceutical industry.

Based on the information provided by the Management, Mr. Zhang is responsible for formulating the business strategies of the Group, building the senior management team of the Group, managing organisational structure and system of the Group and communicating with the Board. Additionally, he is responsible for overseeing the Group's day-to-day operations to ensure the execution of the business plan. Mr. Zhang closely collaborates with the Group's Management team to make operational decisions aimed at achieving the Group's objectives, improving efficiency and enhancing risk management. Furthermore, he serves as a representative of the Company, actively fostering and strengthening relationships with external parties and within the pharmaceutical industry.

According to the Directors' report of the Annual Report 2022, Dr. Li Chunlei (“**Dr. Li**”), has been an executive Director of the Company since December 2017. Dr. Li is currently the chief scientist of the Group and in charge of research and development. Dr. Li is also a director of certain subsidiaries of the Company, deputy director of the Novel Pharmaceutical Preparations and Excipients State Key Laboratory and director of the Hebei Pharmaceutical Engineering Technology Centre. Dr. Li holds a bachelor's degree in engineering (biological pharmaceuticals) from Jilin University and Shenyang Pharmaceutical University, a master's degree in science (microbial and biochemical pharmaceuticals) from Jilin University and a doctorate in science (pharmaceutical science) from Shenyang Pharmaceutical University.

Based on the information provided by the Management, Dr. Li is the chief scientist of the Group, leading the research and development department. He is responsible for developing and sustaining the Group's research and development capabilities. Dr. Li achieves this by nurturing talent, advancing technology, and enhancing the pipeline of projects. In his role, Dr. Li manages a team of scientists and supporting staff to ensure the successful implementation of research and development plans. He oversees research studies and drives the development of new technologies to enhance the Group's research and development capabilities. Dr. Li also sets research and development priorities and identifies product candidates with promising clinical and market value. Furthermore, Dr. Li is responsible for overseeing the pre-clinical and clinical development of product candidates, as well as regulatory submissions. He also oversees intellectual property protection and patent applications for the Group.

According to the Directors' report of the Annual Report 2022, Mr. Wang Huaiyu (“**Mr. Wang**”) has been an executive Director of the Company since October 2010. Mr. Wang is also a director of certain subsidiaries of the Company. Mr. Wang holds a bachelor's degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Based on the information provided by the Management, Mr. Wang assumes a leadership role in the Bulk Product Business of the Group. His responsibilities include developing both short and long-term business plans for this division. Mr. Wang formulates and executes sales strategies that are aligned with the Company's overall business goals and responsible for the day-to-day management of the sales team. He ensures that the sales and marketing strategies are effectively implemented to achieve the business plans and sales targets. Furthermore, Mr. Wang oversees and manages the manufacturing of the bulk drug products. His role is to ensure that the production processes are aligned with the sales plans and that the products are manufactured at a competitive production cost.

According to the Directors' report of the Annual Report 2022, Mr. Wang Zhenguo, has been an executive Director of the Company since January 2012. Mr. Wang Zhenguo is also a director of certain subsidiaries of the Company. Mr. Wang Zhenguo holds a bachelor's degree in chemistry from Nankai University and has extensive technical, marketing and management experience in the pharmaceutical industry.

Based on the information provided by the Management, Mr. Wang Zhenguo assumes a leadership role of the Finished Drug Business. His responsibilities include developing business plans and objectives for Finished Drug Business. Furthermore, he is responsible for building and maintaining the Group's product commercialisation capabilities. This involves ensuring effective strategies are in place to successfully bring products to market and generate revenue for the Group. In addition, he manages a professional sales team, with a particular focus on innovative drugs. He takes on the day-to-day management of the sales team by formulating and executing sales strategies that align with the Company's overall business goals, aiming to drive sales growth and market penetration.

According to Directors' report of the Annual Report 2022, Mr. Pan Weidong ("**Mr. Pan**") has been an executive Director of the Company since October 2006. Mr. Pan is also a director of certain subsidiaries of the Company. Mr. Pan holds an executive master of business administration degree from Tsinghua University and has extensive finance, accounting and investment experience in the pharmaceutical industry. Mr. Pan is a director of Common Success International Limited, a substantial shareholder of the Company.

Based on the information provided by the Management, Mr. Pan oversees the capital and financing activities within the Group. His primary responsibility is to optimise the financial resources and capital structure of the Company to support operational activities, growth initiatives, and financial obligations. Additionally, Mr. Pan oversees the finance and accounting function of the Group, ensuring that a high standard of financial management is maintained, encompassing areas such as financial reporting, budgeting, cash management, and internal controls. By upholding these standards, Mr. Pan contributes to the overall financial health and stability of the Group. Moreover, Mr. Pan is responsible for long-term financial planning, aligning it with the business goals of the Company. Furthermore, Mr. Pan holds the position of chairman in an A-share listed subsidiary of the Company. In this role, he leads and manages the development and operation of the functional food segment of the Group.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

According to the Directors' report of the Annual Report 2022, Dr. Wang Qingxi ("**Dr. Wang**"), has been an executive Director of the Company since August 2018. Dr. Wang is also a director of certain subsidiaries of the Company. Prior to joining the Group, Dr. Wang worked at Merck &Co., Inc. in the United States (the "**U.S.**") for 20 years where he held senior positions including director of pharmaceutical research and development and director of business development and operation. Dr. Wang holds a bachelor's degree in science (chemistry) and a master's degree in science (chemistry) from Nankai University in China, a master's degree in science (polymer science) and a doctorate in chemistry from University of Connecticut in the U.S. and a master of business administration degree from Temple University in the U.S.

Based on the information provided by the Management, Dr. Wang is responsible for the oversight and management of the research and development centers of the Group ("**US Centers**") in the U.S., ensuring their effective operation and alignment with the Group's objectives. Dr. Wang manages a team of scientists and supporting staff within the US Centers. His role is to ensure the successful implementation of research and development plans in the US Centers by setting research and development priorities, identifying areas of focus and potential product candidates that hold clinical and market value. In addition, Dr. Wang oversees the pre-clinical and clinical development of product candidates, as well as the regulatory submission process. Dr. Wang is also responsible for overseeing the intellectual property protection and patent applications for the Group. Dr. Wang plays a significant role in overseeing the Group's business development efforts in the U.S. market. This includes collaborating with overseas partners through licensing agreements, both in terms of licensing products into the Group and licensing products out to overseas partners.

According to the Directors' report of the Annual Report 2022, Mr. Chak Kin Man ("**Mr. Chak**") has been an executive Director of the Company since December 2005. Mr. Chak is also a director of certain subsidiaries of the Company. Mr. Chak is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chak holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance, accounting and investor relations. Mr. Chak is a director of Common Success International Limited, a substantial shareholder of the Company.

Based on the information provided by the Management, Mr. Chak oversees the operations in Hong Kong. His responsibilities include external financial reporting, treasury management, corporate compliance (including compliance with Listing Rules), environmental social and governance reporting, corporate governance reporting, investor relations and developing the investor relations plan and strategy. He serves as the principal contact person with the company secretary and maintains effective communication with independent non-executive Directors. Mr. Chak's expertise contributes to financial transparency, regulatory compliance, and strong investor relationships of the Group.

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According to the Directors' report of the Annual Report 2022, Dr. Jiang Hao (“**Dr. Jiang**”), has been an executive Director of the Company since November 2020. Prior to joining the Group in August 2020, Dr. Jiang has worked at Fastenal Company as general manager (northern and central China) in the U.S., Tianjin Kesun Technology Company (marketing and sales center of Baidu, Inc. in Tianjin) as general manager and 3H Health Investment Management Ltd. as assistant to chairman and chief operation officer. Dr. Jiang holds a bachelor's degree in management from Hebei University of Technology, a master's degree in management, economics and industrial engineering from Politecnico di Milano and a doctorate in management (technology economics and management) from Hebei University of Technology.

Based on the information provided by the Management, Dr. Jiang primarily focused on the business development of the Group. Dr. Jiang would identify potential opportunities for license-in, license-out, and mergers and acquisitions that align with the Group's development strategies. Dr. Jiang leads a team of business development staff who are responsible for evaluating and managing the execution of deals. Furthermore, Dr. Jiang oversees the sale and marketing of certain finished drug products in the county-level market and certain centralised-procurement finished drug products in China and is also responsible for overseeing the investor relations function including the development of investor relations plan and strategy.

As per the discussion with the Management and considering the above, we understand that the Management Grantees have been crucial to the business development and operation of the Group. We are of the view and concur with the Management's view that leveraging the expertise, experience and knowledge of the Management Grantees is in the best interests of the Group for its future development. Therefore, it is important for the Group to retain and motivate the Management Grantees through the Underlying Transaction.

4. Reasons and benefit of the Underlying Transaction

As stated in the Board Letter, the Underlying Transaction, which allows the Management Grantees to gain further ownership interest in the Group and ties more closely their personal interest directly with the value of the Group, would incentivise and motivate the Management Grantees for their continuous commitment, devotion and contributions to the development and growth of the Group going forward. In addition, in light of the satisfactory financial performance of the Group for FY2020, FY2021 and FY2022, if the vesting conditions and the Granting Conditions of the Share Options are fulfilled, the Exercise of the Share Options by the Management Grantees as a reward, compensation and remuneration to the Management Grantees in recognition of their valuable contributions to the Group is justifiable. Furthermore, upon completion of the Exercise of the Share Options, it will result in positive cash flows of approximately HK\$299.0 million derived from the exercise price payable by the Management Grantees to the Company which in turn will further replenish the Company's general working capital for its business operations and developments.

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As advised by the Management, given the highly competitive industry in which the Group operates, replacing executive officers or key employees in the pharmaceutical industry may be difficult and may take a prolonged period of time to attract experts with the breadth of expertise and experience required to successfully develop, gain regulatory approval of, manufacture and commercialise drug products. Maintaining a stable and experienced management team is therefore critical to the development and expansion of pharmaceutical companies. In particular, according to the Management, as at the Latest Practicable Date, there were over 50 product candidates of the Group in clinical stage pursuing toward market approvals in a broad range of indications, any replacement in the key executives may adversely affect the clinical development progress and product commercialisation. Given that the Share Options to be granted are subject to the vesting conditions of at least after the financial results of the Group for the year ending 31 December 2023 (“**FY2023**”) and 2024 (“**FY2024**”) to be published (with vesting conditions on growth of profits of the Group as stated below), we consider that such feature is designed to motivate the Management Grantees continuing commitment and contribution towards the development of the Group with their expertise and experience, and thereby promote the development of the Group.

With reference to the Board Letter, the vesting of the Share Options are subject to a single-digit percentage growth on the amount of the underlying profit attributable to Shareholders (i.e. the profit attributable to Shareholders after excluding certain non-operating items as determined by the Board) for the FY2023 and that of a double-digit percentage for FY2024. Accordingly, we are of the view and concur with the Management’s view that the Underlying Transaction would incentivise the Management Grantees to strive for higher profits of the Group in the near future which is fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

As discussed with the Management, the Board has considered several methods of providing incentives to the Management Grantees, including lump sum cash bonuses as well as share bonuses and share awards under the share award scheme of the Company. After careful consideration of the various alternatives, although the Group recorded strong bank balances and cash of approximately RMB10.47 billion as at 30 June 2023, the Board considers that granting of Share Options is the most appropriate and in the best interest of the Group given that, as opposed to the other alternatives, granting of Share Options will enable the Group to conserve its cash resources carry on its current business operation of the Group which including business development, expenditure in research and development (research and development expenses of approximately RMB3.43 billion for FY2021 and approximately RMB3.99 billion for FY2022 according to Annual Report 2022) and sufficient buffer cash for future or sudden use while allowing added incentives to the Management Grantees.

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Having considered that (i) the Underlying Transaction, which allows the Management Grantees to gain further ownership interest in the Group and ties more closely their personal interest directly with the value of the Group, would incentivise and motivate the Management Grantees for their continuous commitment, devotion and contributions to the development and growth of the Group going forward; (ii) maintaining a stable and experienced management team is critical to the development and expansion of the Group and the Underlying Transaction is designed to motivate the Management Grantees continuing commitment and contribution towards the development of the Group; (iii) based on the vesting conditions on growth of profits of the Group, the Underlying Transaction would incentivise Management Grantees to strive for higher profits of the Group in the near future; and (iv) granting of Share Options will enable the Group to conserve its cash resources to carry on its current business and sufficient buffer cash for future or sudden use while allowing added incentives to the Management Grantees, we are of the view that the Underlying Transaction is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5. Potential dilution effects of the Underlying Transaction

With reference to the paragraph headed “3. EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY” in the Board Letter, subject to the Grant Conditions having been fulfilled and assuming that there will be no change in the total number of issued Shares during the period from the Latest Practicable Date up to completion of the Exercise of the Share Options, upon the Exercise of the Share Options at the exercise price of HK\$5.98 per Share as prescribed in the terms of the grant, the Management Grantees will be allotted and issued with an aggregate of 50,000,000 new Shares, representing approximately 0.420% of the total number of issued Shares immediately before the completion of the Exercise of the Share Options and approximately 0.418% of the total number of issued Shares as enlarged by the issuance of the Share Option Shares, respectively.

As at the Latest Practicable Date, there were (i) 11,903,219,732 Shares in issue; (ii) 50,000,000 outstanding Share Options as disclosed in the Board Letter; and (iii) 658,000 outstanding share awards (being existing Shares held by the Trustee which have not yet been vested) and 4,000 share awards (being existing Shares held by the Trustee which have been vested but not yet been transferred to the relevant awardee) pursuant to the Share Award Scheme. Save as disclosed above, as at the Latest Practicable Date, the Company had no other outstanding securities convertible or exchangeable into Shares.

The Management Group holds an aggregate of 3,558,899,663 Shares, representing approximately 29.90% of the total number of issued Shares as at the Latest Practicable Date.

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issuance of the Share Option Shares upon Exercise of the Share Options (assuming that there will be no other change in the total number of issued Shares prior to completion of the Exercise of the Share Options):

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	As at the Latest Practicable Date		Immediately after the issuance of the Share Option Shares upon Exercise of the Share Options	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
I. Management Group				
Mr. Cai and Mr. Cai's Controlled Corporations (Note 1)	2,826,255,670	23.74	2,844,255,670	23.79
Common Success (Note 2)	728,796,313	6.12	728,796,313	6.10
Mr. ZHANG Cuilong	–	–	8,000,000	0.07
Dr. LI Chunlei	–	–	6,000,000	0.05
Mr. WANG Huaiyu	–	–	3,000,000	0.03
Mr. WANG Zhenguo	–	–	3,000,000	0.03
Mr. PAN Weidong	–	–	3,000,000	0.03
Dr. WANG Qingxi (Note 3)	–	–	3,000,000	0.03
Mr. CHAK Kin Man	3,847,680	0.03	6,847,680	0.06
Dr. JIANG Hao	–	–	3,000,000	0.03
Sub-total of the Management Group:	3,558,899,663	29.90	3,608,899,663	30.19
II. Other Shareholders				
Other Shareholders	<u>8,344,320,069</u>	<u>70.10</u>	<u>8,344,320,069</u>	<u>69.81</u>
Total	<u>11,903,219,732</u>	<u>100.0</u>	<u>11,953,219,732</u>	<u>100.0</u>

Notes:

- As at the Latest Practicable Date, Mr. Cai was beneficially interested in 225,386,960 Shares and was deemed to be interested in 2,600,868,710 shares through various companies, comprising (i) 406,904,640 Shares (representing approximately 3.42% of the total number of issued Shares) directly held by Key Honesty, a direct wholly-owned subsidiary of True Ally, (ii) 1,218,834,470 Shares (representing approximately 10.24% of the total number of issued Shares) directly held by Massive Giant, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 Shares (representing approximately 7.97% of the total number of issued Shares) directly held by True Ally, which is directly wholly-owned by Mr. Cai and (iv) 26,880,000 Shares (representing approximately 0.23% of the total number of issued Shares) directly held by Harmonic Choice by virtue of his interests in a chain of corporations holding Harmonic Choice, namely Massive Top, of which March Rise, Beijing Zhongyihe and True Ally owns 75%, 15% and 10%, respectively. March Rise in turn is owned as to 40% by True Ally and 60% by Beijing Zhongyihe, the general partner of which is Mr. Cai.

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2. As at the Latest Practicable Date, Common Success was ultimately beneficially owned by more than 80 individuals being existing and former management personnel of (i) the Group and (ii) CSPC Holdings Group. These management personnel include certain Directors, namely Mr. Zhang Cui long, Mr. Pan Weidong, Mr. Wang Zhenguo, Mr. Wang Huaiyu, Dr. Li Chunlei and Dr. Jiang Hao. None of these Directors beneficially own one-third or more of the total number of issued shares of Common Success.
3. Based on the information provided by Key Honesty, Key Honesty granted share awards to Dr. Wang Qingxi, enabling him to acquire 3,000,000 Shares from Key Honesty at the consideration of HK\$2.95 per Share pursuant to a share grant agreement dated 1 April 2022 made between Key Honesty and Dr. Wang Qingxi. Such share awards will only be vested in batches after 3 years from 1 April 2022 subject to the terms of the aforesaid share grant agreement.
4. Certain figures included in the above table have been subject to rounding adjustments. Accordingly, figures shown as totals or sub-totals may not represent precise arithmetic aggregations.

As illustrated above, the aggregate shareholding of the other public Shareholders will decrease from approximately 70.10% to approximately 69.81% after the issuance of the Share Option Shares upon Exercise of the Share Options. Having considered the reasons and benefits of granting the Share Options, which has been mentioned in the above paragraph headed “Reasons and benefit of the Underlying Transaction”, we therefore consider that the dilution effect on the percentage shareholding of existing Shareholders in the Company as a result of the issuance of the Share Option Shares upon Exercise of the Share Options is justifiable.

6. Application for Whitewash Waiver

As at the Latest Practicable Date, the Management Group held an aggregate of 3,558,899,663 Shares, representing approximately 29.90% of the total number of issued Shares as at the Latest Practicable Date. Upon completion of the Exercise of the Share Options, the Management Group will be interested in 3,608,899,663 Shares, representing (a) approximately 30.32% of the total number of issued Shares as at the Latest Practicable Date; and (b) approximately 30.19% of the total number of issued Shares as enlarged by the issuance of the Share Option Shares.

The Exercise of the Share Options in full will cause the aggregate shareholding interests in the total number of issued Shares held by the Management Group to increase from approximately 29.90% (of the total number of issued Shares as at the Latest Practicable Date) to approximately 30.19% (of the total number of issued Shares as enlarged by the issuance of the Share Option Shares). Accordingly, the Management Grantees would be obliged to make a mandatory general offer pursuant to Rule 26.1 of the Takeovers Code to the Shareholders for all the issued Shares of the Company not already owned or agreed to be acquired by the Management Group as a result of the allotment and issuance of the Share Option Shares to the Management Grantees, unless the Whitewash Waiver is granted by the Executive.

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In this regard, an application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the conditions that the respective resolutions relating to the Underlying Transaction on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll in accordance with the requirements of the Takeovers Code.

The Executive has agreed, subject to the respective resolutions relating to the Underlying Transaction on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll, to waive the obligation of the Management Grantees to make a mandatory general offer as a result of the allotment and issuance of the Share Options Shares to the Management Grantees by the Company.

To consider whether the granting of the Whitewash Waiver is in the interests of the Company and Independent Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the benefits that the Exercise of the Share Options will bring to the Group as stated in the section headed “4. Reasons and benefit of the Underlying Transaction” above in this letter, and the fact that the Exercise of the Share Options is conditional upon the granting of the Whitewash Waiver by the Executive and the Independent Shareholders having approved the Whitewash Waiver at the EGM and such conditions cannot be waived.

Based on our analysis regarding the terms of the Underlying Transaction, we consider that the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

7. Financial effect of the Underlying Transaction

As advised by the Management, save for the expenses in relation to the issue and allotment of the Share Option Shares, the grant of Share Options will not have any material impact on the Group’s cash position and net current assets.

RECOMMENDATION

Although the aggregate shareholding of the other public Shareholders will decrease from approximately 70.10% to approximately 69.81% after the issuance of the Share Option Shares upon Exercise of the Share Options, having taken into account the principal factors and reasons as discussed above in this letter, and in summary as follows (which should be read in conjunction with and interpreted in the full context of this letter):

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- (i). except one Comparable Grant as outlier, all of the Comparable Grants determined the exercise price in compliance with the requirements of Rule 17.03E of the Listing Rules and provide no discounts or premiums to respective grantees, which is same as the Underlying Transaction and only one out of four Comparable Grants has vesting conditions relating to the performance target of its future financial performance as stated under the paragraph headed “2. Principal terms of the Underlying Transaction and grant conditions of the Share Options” above in this letter;
- (ii). leveraging the expertise, experience and knowledge of the Management Grantees is in the best interests of the Group for its future development and it is important for the Group to retain and motivate the Management Grantees through the Underlying Transaction as stated under the paragraph headed “3. Information of the Management Grantees” above in this letter;
- (iii). based on the vesting conditions on growth of profits of the Group, the Underlying Transaction would incentivise Management Grantees to strive for higher profits of the Group in the near future as stated under the paragraph headed “4. Reasons and benefit of the Underlying Transaction” above in this letter; and
- (iv). granting of Share Options will enable the Group to conserve its cash resources to carry on its current business and sufficient buffer cash for future or sudden use while allowing added incentives to the Management Grantees as stated under the paragraph headed “4. Reasons and benefit of the Underlying Transaction” above in this letter,

we consider that the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the EGM for approving the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Yours faithfully,
For and on behalf of
Nuada Limited

Kim Chan
Director

Kevin Wong
Vice President

Mr. Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 18 years of experience in corporate finance industry.

Mr. Kevin Wong is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 16 years of experience in corporate finance industry.

1. FINANCIAL SUMMARY

The following is a summary of the consolidated financial results of the Group for each of the three years ended 31 December 2020, 2021 and 2022 as extracted from the annual reports of the Company for the years ended 31 December 2020, 2021 and 2022, and the unaudited consolidated interim results of the Group for the six months ended 30 June 2022 and 30 June 2023 as extracted from the interim report of the Company for the six months ended 30 June 2023:

	For the year ended 31 December			For six months ended 30 June	
	2022	2021	2020	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	30,936,904	27,866,870	24,942,204	16,080,412	15,610,026
Cost of sales	(8,680,490)	(6,731,776)	(6,256,882)	(4,842,773)	(4,271,542)
Gross profit	22,256,414	21,135,094	18,685,322	11,237,639	11,338,484
Selling and distribution expenses	(10,337,423)	(10,443,422)	(9,377,620)	(4,902,391)	(5,410,159)
Administrative expenses	(1,172,842)	(1,009,824)	(945,713)	(535,640)	(564,819)
Research and development expenses	(3,986,516)	(3,432,590)	(2,889,837)	(2,303,611)	(1,884,077)
Profit before tax	7,582,261	6,847,096	6,391,023	3,681,554	3,719,460
Income tax expense	(1,350,211)	(1,158,972)	(1,162,013)	(623,514)	(692,377)
Profit for the year/period attributable to:					
– Owners of the Company	6,091,390	5,605,185	5,159,655	2,966,987	2,966,205
– Non-controlling interests	140,660	82,939	69,355	91,053	60,878
	<u>6,232,050</u>	<u>5,688,124</u>	<u>5,229,010</u>	<u>3,058,040</u>	<u>3,027,083</u>
Total comprehensive income for the year/ period attributable to:					
– Owners of the Company	6,154,896	5,593,262	5,391,213	2,985,043	3,019,005
– Non-controlling interests	140,660	82,939	69,355	91,053	60,878
	<u>6,295,556</u>	<u>5,676,201</u>	<u>5,460,568</u>	<u>3,076,096</u>	<u>3,079,883</u>
Earnings per Share (RMB cents)					
– Basic	51.11	46.89	43.16	24.95	24.89
– Diluted	51.11	46.89	43.16	24.95	24.89
Dividends recognised for the year/period:					
Final and interim dividends	2,099,769	1,693,378	1,530,148	1,207,225	1,020,529
Less: Dividend for Shares held under the Share Award Scheme	(2,808)	(2,615)	(2,454)	(3,496)	(1,364)
	<u>2,096,961</u>	<u>1,690,763</u>	<u>1,527,694</u>	<u>1,203,729</u>	<u>1,019,165</u>
Dividends per Share (HK cents)					
– Final dividend	11	10	9		–
– Interim dividend	10	8	6	14	10

(Note)

Note: As disclosed in the annual report for the year ended 31 December 2020, this amount is equivalent to HK3.75 cents if adjusted for the effect of the issue of bonus shares on 29 October 2020.

Save as disclosed above, there were no material items of income or expense in any of the years ended 31 December 2020, 2021 and 2022 and any of the six-month periods ended 30 June 2022 and 2023.

The auditor's reports in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2020, 2021 and 2022 respectively did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

2. CONSOLIDATED FINANCIAL STATEMENTS

Details of the audited consolidated financial statements of the Group for the three years ended 31 December 2020, 2021 and 2022 and the unaudited financial information of the Group for the six months ended 30 June 2023 respectively are disclosed in the following documents; which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.cspc.com.hk):

- i. The unaudited financial information of the Group for the six months ended 30 June 2023 is disclosed in the interim report of the Company for the six months ended 30 June 2023 published on 15 September 2023, from pages 21 to 56:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0915/2023091500242.pdf>

- ii. The audited financial information of the Group for the year ended 31 December 2022 is disclosed in the annual report of the Company for the year ended 31 December 2022 published on 26 April 2023, from pages 55 to 165:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042601443.pdf>

- iii. The audited financial information of the Group for the year ended 31 December 2021 is disclosed in the annual report of the Company for the year ended 31 December 2021 published on 21 April 2022, from pages 57 to 174:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0421/2022042101514.pdf>

- iv. The audited financial information of the Group for the year ended 31 December 2020 is disclosed in the annual report of the Company for the year ended 31 December 2020 published on 14 April 2021, from pages 50 to 162:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0414/2021041400908.pdf>

3. STATEMENT OF INDEBTEDNESS

At the close of business on 31 August 2023, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the publication of this circular, the Group had outstanding (i) bank loans of RMB29 million; (ii) discounted bills with recourse of RMB106 million; and (iii) lease liabilities of RMB315 million.

The discounted bills with recourse were secured by the bills receivables discounted to banks. A bank loan of RMB9 million was secured by certain properties with a net carrying amount of RMB73 million. As of 31 August 2023, bank deposits of RMB14 million have been pledged to banks for the guarantee of bills payables.

Save as disclosed above and apart from intra-group liabilities and normal trade payables and bills payables in the ordinary course of the business, at the close of business on 31 August 2023, the Group did not have any outstanding bank overdrafts or loans, or similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

4. MATERIAL CHANGE

The Directors confirm that there had been no material changes in the financial or trading position or outlook of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Underlying Transaction, the Whitewash Waiver and the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

Assuming there is no change in the number of Shares in issue from the Latest Practicable Date up to the completion date of the Exercise of the Share Options, the issued share capital of the Company (a) as at the Latest Practicable Date; and (b) upon the completion of the Exercise of the Share Options are as follows:

(I) As at the Latest Practicable Date

Issued and fully paid or credited as fully paid

11,903,219,732 Shares

All the issued Shares rank *pari passu* in all respects with each other, including, as to voting rights, rights to return on capital and dividends.

(II) Upon the completion of the Exercise of the Share Options

Issued and fully paid or credited as fully paid

Shares in issue as at the Latest Practicable Date	11,903,219,732
Share Option Shares	<u>50,000,000</u>
Shares in issue upon completion of the Exercise of the Share Options	<u>11,953,219,732</u>

The Share Option Shares, when issued, will rank *pari passu* in all respects (i.e. voting, dividend, transfer or other rights (including those arising on the liquidation of the Company)) with the Shares in issue as at the date of the allotment and issue of the Share Option Shares, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue, provided always that when the date of Exercise of the Share Options falls on a date upon which the register of Shareholders is closed, then the Exercise of the Share Options shall become effective on the first Business Day in Hong Kong on which the register of Shareholders is re-opened. The Share Options themselves, however, do not carry any right to voting, dividend, transfer or other rights (including those arising on the liquidation of the Company) (except the right to be exercised after their vesting) prior to their being exercised and the underlying Shares being issued and allotted.

Since 31 December 2022 (the date to which the latest published audited consolidated financial statements of the Company were made up) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

As at the Latest Practicable Date, save for the (i) 50,000,000 outstanding Share Options as disclosed in this circular; and (ii) 658,000 outstanding share awards (being existing Shares held by the Trustee which have not been vested) and 4,000 Share awards (being existing Shares held by the Trustee which have been vested but not yet been transferred to the relevant awardee) pursuant to the Share Award Scheme, the Company has no other outstanding convertible securities, options, warrants or derivatives in issue which are convertible or exchangeable into Shares.

3. MARKET PRICE

The table below sets out the closing price of the Shares as quoted by the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the last day on which trading took place in each of the calendar months during the Relevant Period:

Date	Closing price per Share HK\$
31 March 2023	7.72
28 April 2023	7.98
31 May 2023	6.82
30 June 2023	6.81
31 July 2023	6.49
31 August 2023, being the Last Trading Day	5.90
29 September 2023	5.74
the Latest Practicable Date	5.41

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK\$8.76 per Share on 6 March 2023 and HK\$5.29 per Share on 4 October 2023, respectively.

The exercise price of the Share Options is HK\$5.98 per Share, representing a premium of approximately 1.36% to the closing price of HK\$5.9 per Share as quoted by the Stock Exchange on 31 August 2023, being the Last Trading Day.

4. DISCLOSURE OF INTERESTS

(a) Interest of Directors

As at the Latest Practicable Date, so far as known to any Director or chief executive of the Company, other than as disclosed below, no interests and 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 SFO) were held by the Directors and chief executive of the Company which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register maintained by the Company referred to therein; (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange; or (d) to be disclosed in this circular pursuant to the requirements of the Takeovers Code:

Long positions

Name of Director	Capacity in which interests are held	Number of issued Shares held	Number of underlying Shares held	Total	Approximate % of issued Shares
Mr. Cai	Beneficial owner	225,386,960 <i>(Note 1)</i>	—	225,386,960	1.89%
	Interest of controlled corporation	2,600,868,710 <i>(Note 2)</i>	—	2,600,868,710	21.85%
Mr. Chak Kin Man	Beneficial owner	3,847,680 <i>(Note 3)</i>	—	3,847,680	0.03%
Dr. Wang Qingxi	Beneficial owner	— <i>(Note 4)</i>	3,000,000 <i>(Note 4)</i>	3,000,000	0.03%

Notes:

- These 225,386,960 Shares do not include those 18,000,000 Share Options conditionally granted to Mr. Cai as disclosed in this circular which are subject to acceptance by Mr. Cai after the Grant Conditions have been fulfilled.
- As at the Latest Practicable Date, Mr. Cai was beneficially interested in 225,386,960 Shares and was deemed to be interested in 2,600,868,710 Shares through various companies comprising (i) 406,904,640 Shares (representing approximately 3.42% of the total number of issued Shares) directly held by Key Honesty, a direct wholly-owned subsidiary of True Ally, (ii) 1,218,834,470 Shares (representing approximately 10.24% of the total number of issued Shares) directly held by Massive Giant, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 Shares (representing approximately 7.97% of the total number of issued Shares) directly held by True Ally, which is directly wholly-owned by Mr. Cai and (iv) 26,880,000 Shares (representing approximately 0.23% of the total number of issued Shares) directly held by Harmonic Choice by virtue of his interests in a chain of corporations holding Harmonic Choice, namely Massive Top, of which March Rise, Beijing Zhongyihe and True Ally own 75%, 15% and 10%, respectively. March Rise in turn is owned as to 40% by True Ally and 60% by Beijing Zhongyihe, the general partner of which is Mr. Cai.
- These 3,847,680 Shares do not include those 3,000,000 Share Options conditionally granted to Mr. Chak Kin Man (“**Mr. Chak**”) as disclosed in this circular which are subject to acceptance by Mr. Chak after the Grant Conditions have been fulfilled.
- As at the Latest Practicable Date, based on the information provided by Key Honesty, Key Honesty granted share awards to Dr. Wang Qingxi (“**Dr. Wang**”), enabling him to acquire 3,000,000 Shares from Key Honesty at the consideration of HK\$2.95 per Share pursuant to a share grant agreement dated 1 April 2022 made between Key Honesty and Dr. Wang. Such share awards will only be vested in batches after 3 years from 1 April 2022 subject to the terms of the aforesaid share grant agreement. As disclosed in this circular, the Company has conditionally granted 3,000,000 Share Options to Dr. Wang under the Share Option Scheme which are subject to acceptance by Dr. Wang after the Grant Conditions have been fulfilled. Those 3,000,000 Share Options are not included in the table set out above.

5. As disclosed in this circular, the Company has also conditionally granted Share Options to each of the remaining Executive Directors, namely, Mr. ZHANG Cui long, Dr. LI Chunlei, Mr. WANG Huaiyu, Mr. WANG Zhenguo, Mr. PAN Weidong and Dr. JIANG Hao which are subject to acceptance by each of them after the Grant Conditions have been fulfilled, details of which are set out in the section headed “Grant of Share Options under the Share Option Scheme” in the “Letter from the Board” in this circular.

(b) Interest of substantial shareholders (as defined in the SFO)

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company and as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under Section 336 of the SFO, the interests or short positions of persons other than the Directors and chief executive of the Company in the Shares and underlying Shares of the Company were as follows:

Long positions

Name of substantial shareholder (as defined in the SFO)	Capacity/Nature	Number of issued Shares held	Number of underlying Shares held	Total	Approximate % of issued Shares
Mr. Cai	Beneficial owner	225,386,960 <i>(Note 1)</i>	--	225,386,960	1.89%
	Interest of controlled corporation	2,600,868,710 <i>(Note 2)</i>	--	2,600,868,710	21.85%
True Ally	Beneficial owner	948,249,600	--	948,249,600	7.97%
	Interest in controlled corporation	1,652,619,110 <i>(Note 2)</i>	--	1,652,619,110	13.88%
Massive Giant	Beneficial owner	1,218,834,470	--	1,218,834,470	10.24%
Common Success	Beneficial owner	728,796,313	--	728,796,313	6.12%
UBS Group AG	Interest in controlled corporation	1,002,119,437	--	1,002,119,437	8.42%

Notes:

1. As disclosed in this circular, the Company has conditionally granted 50,000,000 Share Options to the Management Grantees under the Share Option Scheme which are subject to acceptances by the Management Grantees after the Grant Conditions have been fulfilled, of which 18,000,000 Share Options were conditionally granted to Mr. Cai, which are not included in the table above.

2. As at the Latest Practicable Date, Mr. Cai was beneficially interested in 225,386,960 Shares and was deemed to be interested in 2,600,868,710 Shares through various companies, comprising (i) 406,904,640 Shares (representing approximately 3.42% of the total number of issued Shares) directly held by Key Honesty, a direct wholly-owned subsidiary of True Ally, (ii) 1,218,834,470 Shares (representing approximately 10.24% of the total number of issued Shares) directly held by Massive Giant, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 Shares (representing approximately 7.97% of the total number of issued Shares) directly held by True Ally, which is directly wholly-owned by Mr. Cai and (iv) 26,880,000 Shares (representing approximately 0.23% of the total number of issued Shares) directly held by Harmonic Choice by virtue of his interests in a chain of corporations holding Harmonic Choice, namely Massive Top, of which March Rise, Beijing Zhongyihe and True Ally own 75%, 15% and 10%, respectively. March Rise in turn is owned as to 40% by True Ally and 60% by Beijing Zhongyihe, the general partner of which is Mr. Cai.

Short Positions

Name of substantial Shareholder (as defined in the SFO)	Capacity/Nature	Number of Shares held	Approximate % of interest held
UBS Group AG	Interest in controlled corporation	193,798,761	1.63%

Save as disclosed above, the Directors are not aware of any person (not being Directors or the chief executive of the Company) who, as at the Latest Practicable Date, have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was recorded in the register required to be kept under Section 336 of Part XV of the SFO.

5. ARRANGEMENTS IN CONNECTION WITH THE UNDERLYING TRANSACTION OR THE WHITEWASH WAIVER

- (i) Save for the conditional grant of Share Options, there is no agreement, arrangement or understanding (including any compensation arrangement) exist between any of the Management Grantees or any parties acting in concert with any of them and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the outcome of the Underlying Transaction or the Whitewash Waiver.
- (ii) There is no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Underlying Transaction or the Whitewash Waiver.
- (iii) There is no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Underlying Transaction or the Whitewash Waiver.
- (iv) Save for the Offer Letter which is subject to acceptance by the relevant Management Grantee after the Grant Conditions have been fulfilled, there is no material contract entered into by any Management Grantee in which any Director had a material personal interest.

- (v) As at the Latest Practicable Date, there was no agreement, arrangement or understanding for any of the Share Options Shares to be issued upon the Exercise of the Share Options to be transferred, charged or pledged to any other persons.
- (vi) As at the Latest Practicable Date, neither the Management Grantees nor any party acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, which might be material to the Underlying Transaction and/or the Whitewash Waiver.
- (vii) Save for (i) the consideration of HK\$1.00 required to be paid by each Management Grantee to the Company for the acceptance of the Share Options after the fulfillment of the Grant Conditions and (ii) the exercise price to be paid upon Exercise of the Share Options, there is no other consideration, compensation or benefit in whatever form paid or to be paid by any of the Management Grantees or any parties acting in concert with any of them to the Company or any party acting in concert with the Company in connection with the Underlying Transaction.
- (viii) Save for the conditional grant of Share Options, there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any of the Management Grantees or any party acting in concert with any of them on the one hand, and the Company and any party acting in concert with it on the other hand.
- (ix) There is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any Shareholders on the one hand, and any of the Management Grantees and any party acting in concert with any of them on the other hand.
- (x) Save for the conditional grant of the Share Options, there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any Shareholders on the one hand, and the Company, its subsidiaries or associated companies on the other hand.
- (xi) Mr. Cai and Mr. Chak Kin Man, both being Directors who own beneficial shareholdings in the Company, will abstain from voting on the relevant resolutions in respect of the Underlying Transaction and the Whitewash Waiver at the EGM.

6. SHAREHOLDINGS AND DEALINGS IN THE SECURITIES OF THE COMPANY AND THE MANAGEMENT GROUP

As at the Latest Practicable Date:

- (i) the Company did not hold any shares, convertible securities, warrants, options or derivatives of the Management Group, and it had not dealt for value in any relevant securities shares, convertible securities, warrants, options or derivatives of the Management Group during the Relevant Period;
- (ii) save as disclosed in the “Definitions” and the “Letter from the Board” contained in this circular and the section headed “4. Disclosure of Interests” in this appendix, none of the Directors held any Shares, convertible securities, warrants, options or derivatives in respect of any Shares, and none of the Directors had any interest in shares, convertible securities, warrants, options or derivatives in respect of any shares in the Management Group nor, save for Mr. Cai’s Acquisitions, had they dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of any shares in the Company or the Management Group during the Relevant Period;
- (iii) none of the subsidiaries of the Company, pension fund of the Company or any of its subsidiaries, any person presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert in the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of associate in the Takeovers Code (but excluding exempt principal traders and exempt fund managers), owned or controlled any Shares, convertible securities, warrants, options or derivatives in respect of any Shares, and none of them had dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of any Shares during the period from the date of the Announcement and up to the Latest Practicable Date;
- (iv) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert under the Takeovers Code or who was an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code and no such persons had dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of any Shares during the period from the date of the Announcement and up to the Latest Practicable Date;
- (v) no fund manager (other than exempt fund managers) connected with the Company managed any Shares, convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis or had dealt for value in the Shares, convertible securities, warrants, options or derivatives in respect of any Shares during the period from the date of the Announcement and up to the Latest Practicable Date;

- (vi) neither the Company nor any of the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives in respect of any Shares; and
- (vii) save as disclosed in the “Definitions” and the “Letter from the Board” contained in this circular and the section headed “4. Disclosure of Interests” in this appendix, none of the directors of the Management Group had any Shares, convertible securities, warrants, options or derivatives in respect of any Shares, and save for Mr. Cai’s Acquisitions, none of them had dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of any Shares during the Relevant Period.

As at the Latest Practicable Date, save as disclosed in the “Definitions” and the “Letter from the Board” contained in this circular and the section headed “4. Disclosure of Interests” in this appendix, neither the Management Grantees nor any party acting in concert with him any of them:

- (i) held any Shares, convertible securities, warrants, options or derivatives in respect of any Shares, and save for Mr. Cai’s Acquisitions, none of them had dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of any Shares, during the Relevant Period;
- (ii) owned or had control or direction over any voting rights or rights over the Shares, options, warrants, or any securities that were convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company (the “Securities”), and save for Mr. Cai’s Acquisitions, none of them had dealt for value in such Securities during the Relevant Period;
- (iii) save for the Mr. Cai’s Acquisitions, had (i) acquired voting rights in the Company in the six months period before the date of the Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors (which would include informal discussions) in relation to the proposed conditional grant of Share Options; or (ii) acquired or disposed of voting rights in the Company between the date of the Announcement and the Latest Practicable Date;
- (iv) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code and including warrants) in the Company;
- (v) had any agreement or arrangement to which it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Underlying Transaction and/or the Whitewash Waiver, other than the Grant Conditions; and
- (vi) had received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the Underlying Transaction, the Whitewash Waiver and the transactions contemplated thereunder at the EGM.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, the following Directors have entered into service contracts with the Company which are fixed term contracts with more than 12 months to run irrespective of the notice period:

- (a) Mr. Wang Bo (“**Mr. Wang**”) has entered into a service contract with the Company for a period of three years commencing from 21 December 2021 and expiring on 20 December 2024 and his appointment is subject to retirement and re-election at the annual general meeting in accordance with the Articles of Association. Mr. Wang is entitled to receive an annual director’s fee of not less than HK\$150,000 (such amount may be adjusted from time to time by the Board as authorised by the Shareholders in an annual general meeting of the Company). No variable remuneration is payable under this contract; and
- (b) Mr. Chen Chuan (“**Mr. Chen**”) has entered into a service contract with the Company for a period of three years commencing from 5 June 2022 and expiring on 4 June 2025 and his appointment is subject to retirement and re-election at the annual general meeting in accordance with the Articles of Association. Mr. Chen is entitled to receive an annual director’s fee of not less than HK\$157,500 (such amount may be adjusted from time to time by the Board as authorised by the Shareholders in an annual general meeting of the Company). No variable remuneration is payable under this contract.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had entered into a service contract with the Company or any of its subsidiaries or associated companies (as defined under the Takeovers Code), which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

8. MATERIAL CONTRACTS

There was no material contract (not being contract(s) entered into in the ordinary course of business carried on or intended to be carried on by any member of the Group) which had been entered into by any member of the Group within two years before the date of the Announcement and up to the Latest Practicable Date.

9. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

10. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has been named in this circular and has given its opinion or advice which are contained in this circular:

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

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

11. GENERAL

- (a) The registered office of the Company is situated at Suite 3206, 32nd Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.
- (b) The headquarter and principal place of business of the Company in the PRC is at No.896, Zhongshan East Road, Shijiazhuang, Hebei, China and the principal place of business of the Company in Hong Kong is at Suite 3206, 32nd Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.
- (c) The company secretary of the Company is Mr. LO Tai On.
- (d) The auditor of the Company is Deloitte Touche Tohmatsu of 35/F, One Pacific Place, 88 Queensway, Hong Kong.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (f) The Independent Financial Adviser is Nuada Limited and its registered office is Unit 1606, 16th Floor, OfficePlus@Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong.
- (g) The address of Mr. Cai is Flat B, 22/F, Tower 3, The Leighton Hill, 2B Broadwood Road, Hong Kong.
- (h) The address of Mr. Zhang Cuilong is Flat 16-602, the Tenth Sanatorium for Retired Cadres of the Hebei Provincial Military Command, 273 Huai An West Road, Shijiazhuang, Hebei, China.
- (i) The address of Dr. Li Chunlei is Flat 1-803, Block E3, Tan Gu Rui Cheng Xiao Qu, Shijiazhuang, Hebei, China.
- (j) The address of Mr. Wang Huaiyu is Flat 3-303, Block 6, 208 Yuejin Road, Shijiazhuang, Hebei, China.

- (k) The address of Mr. Wang Zhenguo is Flat 1-402, Block 2, 278 Zhongshan West Road, Qiaoxi District, Shijiazhuang, Hebei, China.
- (l) The address of Mr. Pan Weidong is Flat 1-302, Block 8, 261 Jianshe North Street, Shijiazhuang, Hebei, China.
- (m) The address of Dr. Wang Qingxi is 1135 Cedar Road, Ambler, PA 19002, USA.
- (n) The address of Mr. Chak Kin Man is Flat B, 23/F, South Tower 2, Residence Bel-Air, Pokfulam, Hong Kong.
- (o) The address of Dr. Jiang Hao is Flat 1-1903, Block 2, He Xiang Yuan, Heping Road, Heping District, Tianjin, China.
- (p) The registered address of Massive Giant is Morgan and Morgan Building, Pasea Estate, Road Town, Tortola, VG1110, British Virgin Islands.
- (q) The registered address of True Ally is Morgan and Morgan Building, Pasea Estate, Road Town, Tortola, VG1110, British Virgin Islands.
- (r) The registered address of Key Honesty is Morgan and Morgan Building, Pasea Estate, Road Town, Tortola, VG1110, British Virgin Islands.
- (s) The registered address of Harmonic Choice is Morgan & Morgan Building, Pasea Estate, Road Town, Tortola, VG1110, British Virgin Islands.
- (t) The registered address of Common Success is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
- (u) Massive Giant is a company incorporated in the British Virgins Island with limited liability and is ultimately beneficially owned by Mr. Cai. The sole director of Massive Giant is Mr. Cai.
- (v) True Ally is a company incorporated in the British Virgins Island with limited liability and is directly wholly-owned by Mr. Cai. The sole director of True Ally is Mr. Cai.
- (w) Key Honesty is a company incorporated in the British Virgins Island with limited liability and is ultimately beneficially owned by Mr. Cai. The sole director of Key Honesty is Mr. Cai.
- (x) Harmonic Choice is a company incorporated in the British Virgins Island with limited liability and is wholly-owned by Massive Top. The directors of Harmonic Choice are Mr. Chak Kin Man and Mr. Sun Jumin.

- (y) Common Success is a company incorporated in the British Virgin Islands with limited liability and is ultimately beneficially owned by more than 80 individuals being existing and former management personnel of (i) the Group and (ii) CSPC Holdings Group. The directors of Common Success are Mr. Pan Weidong, Mr. Chak Kin Man, Mr. Sun Jumin and Mr. Zhang Heming.
- (z) In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

12. DOCUMENTS ON DISPLAY

Copies of the following documents are available for inspection (i) on the website of the Company (www.cspc.com.hk); (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Stock Exchange (www.hkexnews.hk), from the date of this circular up to and including the date of the EGM:

- (a) the Articles of Association;
- (b) the annual report of the Company for each of the three years ended 31 December 2020, 2021 and 2022 respectively;
- (c) the interim report of the Company for the six months ended 30 June 2023;
- (d) the letter from the Board, the text of which is set out on pages 7 to 20 of this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this circular;
- (f) the letter from the Independent Financial Adviser, the text of which is set out on pages 23 to 54 of this circular;
- (g) the written consent from the Independent Financial Adviser referred to under the paragraph headed “Qualification and consent of expert” in this appendix;
- (h) the service contracts referred to under the paragraph headed “Directors’ Service Contracts” in this appendix; and
- (i) this circular.

NOTICE OF EGM



CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1093)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of CSPC Pharmaceutical Group Limited (the “Company”) will be held at Suite 3206, 32/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong on Friday, 3 November 2023 at 10:00 a.m. or any adjournments thereof for the purpose of considering and, if thought fit, passing (with or without modifications) the following proposed resolutions of the Company:

ORDINARY RESOLUTIONS

- (1) “**THAT** the conditional grant of 18,000,000 share options (“**Mr. Cai’s Share Options**”) to Mr. Cai Dongchen (“**Mr. Cai**”) pursuant to the share option scheme adopted by the Company on 9 December 2015 (the “**Share Option Scheme**”), entitling him to subscribe for 18,000,000 ordinary shares of the Company (“**Share(s)**”) at an exercise price of HK\$5.98 per Share (the principal terms and conditions of Mr. Cai’s Share Options are set out in the circular of the Company dated 9 October 2023 (the “**Circular**”)) on such terms as stipulated in the offer letter issued by the Company to Mr. Cai and subject to the terms of the Share Option Scheme from time to time be and is hereby approved, confirmed and ratified; and **THAT** any one director of the Company be and is hereby authorized to do all such things and take all such actions (including but not limited to the allotment and issuance of Shares upon exercise of Mr. Cai’s Share Options) and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) as he/she may consider to be necessary or desirable to implement any of the matters relating to or incidental to Mr. Cai’s Share Options.”
- (2) “**THAT** the conditional grant in the aggregate of 50,000,000 Shares (the “**Share Options**”) at the exercise price of HK\$5.98 per Share to Mr. Cai, Mr. ZHANG Cuilong, Dr. LI Chunlei, Mr. WANG Huaiyu, Mr. WANG Zhenguo, Mr. PAN Weidong, Dr. WANG Qingxi, Mr. CHAK Kin Man and Dr. JIANG Hao (collectively, the “**Management Grantees**”) in accordance with the terms of the Share Option Scheme in such manner as set out in the Circular and the exercise of the relevant Share Options granted to each of the Management Grantees in accordance with the terms of the Share Options and the Share Option Scheme (the “**Underlying Transaction**”) be and are hereby approved, confirmed and ratified; and **THAT** any one director of the Company be and is hereby authorized to do all such things and take all such actions (including but not limited to the allotment and issuance of

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Shares upon the exercise of the Share Options) and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) as he/she may consider to be necessary or desirable to implement any of the matters relating to or incidental to the Underlying Transaction.”

SPECIAL RESOLUTION

- (3) “**THAT** the waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code (as defined in the Circular) waiving the obligation on the part of the Management Grantees to make a mandatory general offer for all the issued Shares and other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company (if any) not already owned or agreed to be acquired by the Management Group as a result of the allotment and issuance of the Shares pursuant to the Share Options to the Management Grantees (the “**Whitewash Waiver**”), subject to the Executive (as defined in the Circular) granting the Whitewash Waiver and the satisfaction of the conditions attached to the Whitewash Waiver, be and is hereby approved and; **THAT** any one director of the Company be and is hereby authorized to do all acts and things and execute such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all steps which, in his/her opinion deem necessary, desirable or expedient to carry out or to give effect to any matters relating to or in connection with the Whitewash Waiver and/or the transactions contemplated thereunder.”

Yours faithfully,
By order of the Board
CSPC Pharmaceutical Group Limited
CAI Dongchen
Chairman

Hong Kong, 9 October 2023

Registered Office:

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road Wan Chai
Hong Kong

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Notes:

1. The EGM will be held in form of a physical meeting. Any member of the Company entitled to attend, speak and vote at the EGM shall be entitled to appoint one or more proxies to attend, speak and, on a poll, vote instead of him. A proxy need not be a member of the Company but must attend the EGM in person to represent you.
2. To be valid, the proxy form together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be deposited to the Company's share registrar, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof.
3. The register of members of the Company will be closed from Tuesday, 31 October 2023 to Friday, 3 November 2023 both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the EGM to be held on Friday, 3 November 2023, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Monday, 30 October 2023.
4. All votes of shareholders at the EGM will be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.
5. In case the EGM or any adjournment thereof is anticipated to be affected by black rainstorms or tropical cyclone with warning signal no. 8 or above, Shareholders are recommended to visit the Company's website for arrangements of the EGM or any adjournment thereof.