
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in SSY Group Limited (the “Company”), you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission.

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石四藥集團有限公司 SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2005)

(1) CONTINUING CONNECTED TRANSACTIONS MASTER SALE AND PURCHASE AGREEMENT AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

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

 **川盟融資有限公司**
Chanceton Capital Partners Limited

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

A letter from the Board is set out on pages 4 to 22 of this circular.

The notice convening the EGM be held at 3:00 p.m. on Friday, 21 May 2021 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, at Room 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out on pages 53 to 55 of this circular. A form of proxy for the EGM is also enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the office of the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so desire.

PRECAUTIONARY MEASURES FOR EXTRAORDINARY GENERAL MEETING

Please see page ii of this circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the EGM, including but not limited to:

- compulsory body temperature checks
- recommended wearing of a surgical face mask for each attendee
- no distribution of corporate gift or refreshment

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company reminds shareholders that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the meeting in person.

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PRECAUTIONARY MEASURES FOR EGM

The health of our Shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.5 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue.
- (ii) The Company encourages each attendee to wear a surgical face mask throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats.
- (iii) No refreshment will be served, and there will be no corporate gift.
- (iv) Each attendee may be asked whether he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to the question may be denied entry into the meeting venue or be required to leave the meeting venue.

In addition, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the meeting instead of attending the EGM in person, by completing and return the proxy form attached to this circular.

If any Shareholder has any question relating to the EGM, please contact Computershare Hong Kong Investor Services Limited, the Company's share registrar as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong
Email: hkinfo@computershare.com.hk
Tel: 2862 8555
Fax: 2865 0990

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 14 April 2021 in relation to the Continuing Connected Transactions
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	SSY Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held at 3:00 p.m. on Friday, 21 May 2021 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, for the Independent Shareholders to consider, and if thought fit, approve the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps)
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent Board committee of the Company comprising of all the independent non-executive Directors (namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai) formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Continuing Connected Transactions (including the proposed annual caps)

DEFINITIONS

“Independent Financial Adviser”	Chanceton Capital Partners Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions (including the proposed annual caps)
“Independent Shareholders”	Shareholders other than Sichuan Kelun and its associates
“Kelun International”	Kelun International Development Co., Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of Sichuan Kelun. As at the Latest Practicable Date, it holds 446,852,000 Shares, representing approximately 14.76% of the issued share capital of the Company
“Kelun Group”	Sichuan Kelun, together with its subsidiaries
“Latest Practicable Date”	28 April 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Sale and Purchase Agreement”	the master sale and purchase agreement dated 14 April 2021 entered into between the Company and Sichuan Kelun for the sale and purchase of the Material A and Material B
“Material A”	pharmaceutical materials used for manufacturing of products of the Company and its subsidiaries including but not limited to erythromycin thiocyanate, aseptic bag and subcontracted fat emulsion injection
“Material B”	pharmaceutical materials including but not limited to co-extrusion films, synthetic polyisoprene liners and various types of bulk drugs

DEFINITIONS

“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) of HK\$0.02 each of the Company
“Shareholder(s)”	holder(s) of the Shares
“Sichuan Kelun”	四川科倫藥業股份有限公司 (Sichuan Kelun Pharmaceutical Company Limited*), a limited liability company established in the PRC the shares of which are listed on the Shenzhen Stock Exchange, and a substantial shareholder of the Company by virtue of its interest in an aggregate of 606,722,000 Shares (representing approximately 20.0% of the issued share capital of the Company) as at the Latest Practicable Date
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“SFO”	Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
“%”	per cent.

LETTER FROM THE BOARD



石四藥集團有限公司 SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2005)

Executive Directors:

Mr. Qu Jiguang (*Chairman*)
Mr. Wang Xianjun
Mr. Su Xuejun

Non-executive Director:

Mr. Feng Hao

Independent non-executive Directors:

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Registered office:

Cricket Square
Hutchins Drive, P.O. Box 2681 GT
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place of
business in Hong Kong:*

Room 4902-03, 49th Floor
Central Plaza
18 Harbour Road, Wanchai
Hong Kong

4 May 2021

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
MASTER SALE AND PURCHASE AGREEMENT
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder.

LETTER FROM THE BOARD

The primary purpose of this circular is to provide you with, among other matters, (i) details of the Continuing Connected Transactions; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transactions; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions; (iv) a notice convening the EGM; and (v) other information concerning the Company as required under the Listing Rules.

Reference is made to the Company's announcements dated 25 April 2018, 30 September 2019 and 24 April 2020 in relation to a master sale and purchase agreement dated 25 April 2018 (the "**Previous Master S&P Agreement**") entered into between the Company and Sichuan Kelun and the continuing connected transactions contemplated thereunder.

As the term of the Previous Master S&P Agreement has expired on 31 December 2020, the Company has entered into the Master Sale and Purchase Agreement with Sichuan Kelun on 14 April 2021 (after trading hours) in respect of the Continuing Connected Transactions.

THE MASTER SALE AND PURCHASE AGREEMENT

The principal terms of the Master Sale and Purchase Agreement are set out as follows:

Date

14 April 2021 (after trading hours)

Parties

- (a) the Company
- (b) Sichuan Kelun

Subject Matter

Pursuant to the basic terms of the Master Sale and Purchase Agreement, the Group and the Kelun Group agreed to the sale and purchase of the Material A and Material B on a non-exclusive basis, subject to the entering into of individual implementation contracts as agreed between members of the Group and that of the Kelun Group.

LETTER FROM THE BOARD

Term

From 14 April 2021 to 31 December 2023

Conditions precedent

The Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder is subject to the following conditions:

- (i) the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps) having been approved by each of the respective empowered bodies, including the board of directors and shareholders, of the parties;
- (ii) the circular in respect of the Continuing Connected Transactions having been approved by the Stock Exchange and despatched to the Shareholders;
- (iii) the Independent Shareholders having approved the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps) as required under the Listing Rules; and
- (iv) the Continuing Connected Transactions having been approved by the board of directors and shareholder of the Kelun Group, and the related directors or related shareholders having abstained from voting thereon.

The Master Sale and Purchase Agreement would be terminated and lapse in the event that the above conditions are not fulfilled by 31 August 2021.

Payment terms

Payments in respect of the Material A purchased by the Company will be made in cash upon the receipt of the relevant Material A by the Company.

Payment in respect of the Material B purchased by the Kelun Group will be made in cash upon the receipt of the relevant Material B by the Kelun Group.

LETTER FROM THE BOARD

PRICING POLICIES

The Group's Purchase of the Material A from the Kelun Group

The unit prices of the Material A purchased by the Company are determined based on the prevailing market prices from time to time for the relevant materials of similar quantities and specifications to ensure that such prices and terms for Material A to be offered by the Kelun Group are no less favourable to the Group than those offered by other independent third-party suppliers. Material A comprises bulk drug raw materials in the PRC market. The Group will compare the unit prices of the Material A to be purchased by the Group with the reference unit prices of the Material A as stated in Menet* (米內網), healthoo.com (健康網) or similar portals in future, so as to ensure that the prices at which and terms on which the Material A are offered by the Kelun Group are on prevailing market terms or better, and thus no less favourable to the Group than those offered by other independent third-party suppliers. Menet and healthoo.com are leading integrated professional information service platforms in the PRC focusing on the provision of medical and health information, terminal data and market research services.

The Group will also at its best effort obtain price quotation(s) of comparable materials of similar quantities and specifications from independent third-party suppliers for comparison. The Company understands that the Kelun Group may be one of very few suppliers in the PRC by market share of certain pharmaceutical raw materials among Material A used for manufacturing of products of the Group including erythromycin thiocyanate, aseptic bag and subcontracted fat emulsion injection. The Company foresees that on certain occasions it may not be possible for the Group to obtain meaningful contemporaneous price quotations from independent third-party suppliers in the PRC capable of providing the raw materials of similar quantity and quality to the Group, as only a very limited number of suppliers in the PRC possess the capacity to produce a large quantity of materials comparable to the orders of the Material A expected to be made by the Group to the Kelun Group, in which event the reference price(s) as stated in Menet and healthoo.com would be the primary reference for setting the prices of the individual orders.

A management personnel of the Group authorised to approve such transactions will review and compare the prices and terms in respect of the Material A offered by the Kelun Group to the Group with the reference unit price as quoted on Menet and healthoo.com and/or contemporaneous price quotation(s) obtained from other independent third-party supply(iers) (as applicable) for comparable materials of similar quantities and specifications before entering into individual contracts pursuant to the Master Sale and Purchase Agreement.

LETTER FROM THE BOARD

In the event that the prices or terms in respect of Material A available to the Group are less favourable than the reference unit price as quoted on Menet and healthoo.com and/or contemporaneous price quotation(s) obtained from other independent third-party supply(iers) (as applicable) for comparable materials of similar quantities and specifications, the Group will not enter into such transactions. The Group will at its best effort further negotiate with the Kelun Group for more favourable terms in order to comply with the pricing principles of the Company disclosed above.

The Kelun Group's Purchase of the Material B from the Group

The unit prices of the Material B purchased by the Kelun Group shall be determined with reference to the prices of relevant comparable materials in the price lists of relevant material adopted by the Company and generally applicable to all customers of the Company at the material time, which will be formulated with reference to the following factors:

- (i) the prices of the corresponding types of the Material B;
- (ii) the Company's production costs;
- (iii) the volume of the purchase orders;
- (iv) the requested packaging requirements; and
- (v) any other factors affecting the Material B's prices.

The unit prices and other terms of the Group's sales of Material B to the Kelun Group shall be no less favourable than those offered to other independent third-party purchasers by the Group at the material time.

A management personnel of the Group authorised to approve such transactions will review and compare the unit prices of the Material B offered by the Group to the Kelun Group with at least two recent transaction records of comparable materials offered by the Group to independent third-party customers in the price lists of the Group before entering into individual contracts with the Kelun Group under the Master Sale and Purchase Agreement.

LETTER FROM THE BOARD

In the event that the unit prices of the Material B offered to the Kelun Group by the Group are less favourable to the Group than those offered by the Group to independent third-party customers for comparable materials of similar quality, type and quantity in the price lists of the Group, the Group will not enter into such transactions. The Group will at its best effort further negotiate with the Kelun Group for more favourable terms in order to comply with the pricing principles of the Company disclosed above.

THE PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION

The Historical Annual Caps

The historical annual caps for the maximum transaction amounts paid by (i) the Group to the Kelun Group in respect of the purchase of the Material A by the Group from the Kelun Group; and (ii) the Kelun Group to the Group in respect of the purchase of the Material B by the Kelun Group from the Group under the Previous Master S&P Agreement for the period ended 31 December 2018 and the two financial years ended 31 December 2019 and 31 December 2020 are set out as follows:

Continuing Connected Transactions	Historical Annual Caps		
	For the year/period ended 31 December		
	2018	2019	2020
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Maximum transaction amount to be paid by the Group for the purchase of the Material A from the Kelun Group	15,862,800	75,310,000 (revised on 30 September 2019)	196,520,000 (revised on 24 April 2020)
Maximum transaction amount to be paid by the Kelun Group for the purchase of the Material B from the Group	45,190,000	68,560,000	76,080,000

LETTER FROM THE BOARD

The Actual Transaction Amounts

The actual transaction amounts paid by (i) the Group to the Kelun Group in respect of the purchase of the Material A by the Group from the Kelun Group; and (ii) the Kelun Group to the Group in respect of the purchase of the Material B by the Kelun Group from the Group under the Previous Master S&P Agreement for the period ended 31 December 2018 and the two financial years ended 31 December 2019 and 31 December 2020 are set out as follows:

Continuing Connected Transactions	Actual Transaction Amounts		
	For the year/period ended 31 December		
	2018	2019	2020
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Actual transaction amount paid by the Group for the purchase of the Material A from the Kelun Group	5,551,000	18,504,000	61,553,000
Actual transaction amount paid by the Kelun Group for the purchase of the Material B from the Group	22,520,000	35,441,000	21,317,000

LETTER FROM THE BOARD

The Proposed Annual Caps

The proposed annual caps for the maximum transaction amounts to be paid by (i) the Group to the Kelun Group in respect of the purchase of the Material A by the Group from the Kelun Group; and (ii) the Kelun Group to the Group in respect of the purchase of the Material B by the Kelun Group from the Group under the Master Sale and Purchase Agreement for the period ending 31 December 2021 and the two financial years ending 31 December 2022 and 31 December 2023 are set out as follows:

Continuing Connected Transactions	Proposed Annual Caps		
	For the year/period ending 31 December		
	2021	2022	2023
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Maximum transaction amount to be paid by the Group for the purchase of Material A from the Kelun Group	360,500,000	370,000,000	370,000,000
Maximum transaction amount to be paid by the Kelun Group for the purchase of Material B from the Group	48,500,000	54,000,000	58,000,000

The proposed annual caps in respect of the Group's purchase of the Material A from the Kelun Group have been determined with reference to:

- (i) the historical annual caps and actual transaction amounts for the continuing connected transactions under the Previous Master S&P Agreement between the parties for the period/year ended 31 December 2018, 2019 and 2020:

Erythromycin thiocyanate, being one of the Material A, is a key component and raw material used in the production of azithromycin (an active pharmaceutical ingredient produced by the Group for sales). Having observed an increasing trend in the international and domestic demand and unit price of azithromycin and taking into account the gradual improvement in the containment of the COVID-19 pandemic in the PRC, the Group has formulated a business plan surrounding the expansion of its production and sales of its azithromycin in 2020. In the course of the dealings between the Group and the Kelun Group in 2020, the Group was given to understand that, owing to recent expansion and better utilisation of the Kelun Group's pharmaceutical raw material production capacity, it has been able to provide a larger

LETTER FROM THE BOARD

quantity of the Material A (in particular erythromycin thiocyanate) to the Group. In order to implement the Group's business plan, and with the understanding that the Kelun Group had become one of the very few suppliers capable of maintaining a stable and bulk supply of erythromycin thiocyanate, the Group has revised the annual cap for the purchase of the Material A on 24 April 2020 based on the Company's internal projection that the estimated amount of erythromycin thiocyanate to be purchased from the Kelun Group would be approximately 480 tons for the remaining eight months in 2020, and with reference to the then prevailing market price of approximately RMB300 per kilogram. However, in light of the outbreak of the COVID-19 pandemic in 2019 and which has continued in 2020, the market condition and sales of active pharmaceutical ingredients of the Group have been affected. According to the statistics published by the National Bureau of Statistics in the PRC, the accumulated amount of production of active pharmaceutical ingredients in the PRC has slumped in the first half of 2020. The decline peaked in July 2020, recording a 23.52% reduction in accumulated amount of production, as compared to the same period in the preceding year. In addition, the sales of active pharmaceutical ingredients during 2020 have been adversely affected by the significant limitations brought to international and domestic logistics and transportation as a result of public health and safety measures implemented by the government(s) internationally, following that COVID-19 was declared a pandemic by the World Health Organisation in March 2020. As a result of a global outbreak of the COVID-19 pandemic, it is the Group's estimation that the reduction in export of the Group's azithromycin had resulted in a declined purchase of erythromycin thiocyanate from the Kelun Group of approximately 300 tons. In pursuit of its business plan in the long-run and in accordance with the environmental protection requirements of the government, the Group has decided to upgrade its azithromycin production facilities so as to cater for a higher production capacity. It resulted in lower production efficiency during the upgrade and have correspondingly led to a reduction in purchase of erythromycin thiocyanate from the Kelun Group by approximately 100 tons. The Group has also generally adopted a more prudent approach in terms of business expansion, whereby priority was given to maintaining a sufficient liquidity level. As such, the business plan of the Group was inevitably hindered, leading to a decline in the sales of active pharmaceutical ingredients (including azithromycin) and thus a notably smaller purchase of erythromycin thiocyanate by the Group from the Kelun Group (i.e. approximately 205 tons for the year 2020) compared to the purchase size originally planned (i.e. approximately 600 tons in aggregate for the year 2020). For the above-mentioned reasons, the actual transaction amount of the Group's purchase of the Material A for the year ended 31 December 2020 was short of the then determined revised annual cap for 2020, which was determined based on the Group's then estimation of market condition;

LETTER FROM THE BOARD

- (ii) the Group's estimated demand for the Material A for the period/years ending 31 December 2021, 2022 and 2023, with reference to the Group's expected production capacities for its end products, existing and expected orders of products from the Group's customers and expected market demands for the Group's products:

As at the Latest Practicable Date, the Company understands that the Kelun Group is one of few suppliers in the PRC of erythromycin thiocyanate, which is a raw material required to produce azithromycin (an active pharmaceutical ingredient produced by the Group for sales). At the beginning of 2021, the implementation of the Group's business plan and therefore the progress of negotiation between the Company and Sichuan Kelun for purchase of Material A were hindered due to an outbreak of COVID-19 in Shijiazhuang, being where the Group is based and its production facilities are located. In such circumstance, the Group was unable to obtain an export certificate for its international sales of azithromycin. As a result, the Company and Sichuan Kelun did not extend the master sale and purchase agreement and there has been no purchase of erythromycin thiocyanate by the Group from the Kelun Group at the time. The outbreak of COVID-19 in Shijiazhuang had come to be under control near the end of the first quarter of 2021. Due to effective hygiene and public health measures, the COVID-19 pandemic has been under control in the PRC, which has led to a gradual improvement in economic activities and consumptions. The Company has seen a trend of recovery in the active pharmaceutical ingredient market as well as general increases in unit price of active pharmaceutical ingredients including azithromycin in the first quarter of 2021. With an increasing vaccination rate and facing the normality under the COVID-19 pandemic, it is the Group's intention to resume and continue with its previously set direction (i.e. to tap into the azithromycin market). According to the business plan formulated by the Group, and following the expansion of the azithromycin production line of the Group, it is estimated that the annual production of azithromycin would be approximately 500 tons per year for the years 2021 to 2023. Upon the completion of the upgrade of the Group's azithromycin production lines in the fourth (4th) quarter of 2020, the production capacity of the Group's azithromycin production lines is estimated to have increased by 1.5 times, from approximately 200 tons per year in 2020 to approximately 500 tons per year from 2021 onwards. In formulating the business plan and internal sales projection of the Material A, the Company has taken into account the growth and market trend for azithromycin in both the domestic and international market. Azithromycin is one of the active pharmaceutical ingredients associated with the preparation of COVID-19 drugs, and the Company has observed an increasing trend in the global COVID-19 associated active pharmaceutical ingredients market. The Company noted that market information has shown that there has been a rapid growth in the global COVID-19 associated active pharmaceutical ingredients market since 2019, and the market is expected to grow at a compound

LETTER FROM THE BOARD

annual growth rate of 5-6% from now to 2023. As at mid-April 2021, the Group was in negotiation with potential customers in respect of the sale of azithromycin in the potential amount of maximum 300 tons for the next three month's production. On such premises, the annual demand for erythromycin thiocyanate, as raw materials for the production of azithromycin, is estimated to be approximately 800 tons per year with a vast majority of approximately 750 tons per year expected to be purchased from the Kelun Group. The Company has a historical record of a generally high retention rate of customers in its active pharmaceutical ingredients business, based on which the Group is confident that most of the customers engaged with the Group in respect of the sales of azithromycin in 2021 are expected to continue with their orders in 2022 and 2023, barring any unforeseeable circumstance;

- (iii) the Kelun Group's expected production capacities of the Material A and the estimated range and quantity of material available to the Group from the Kelun Group for the period/years ending 31 December 2021, 2022 and 2023:

The Group understands from the Kelun Group that its expected annual production capacity for erythromycin thiocyanate is approximately 3,500 tons, which is expected to be sufficient to meet the Group's demand;

- (iv) the expected unit prices of the Material A provided by the Kelun Group with reference to prevailing market prices. In particular, it is estimated by the Group that the expected unit price of erythromycin thiocyanate would be approximately RMB450 to RMB460 per kilogram. Based on the data available in online databases such as Menet* (米內網), healthoo.com (健康網) and wind.com.cn (萬得網), the reference unit price of erythromycin thiocyanate in the PRC is approximately RMB450 to RMB480 per kilogram in March 2021; and
- (v) estimated buffer for fluctuation of market prices and change in specifications.

The proposed annual caps in respect of the Group's sale of the Material B to the Kelun Group have been determined with reference to:

- (i) the historical annual caps and actual transaction amounts for the continuing connected transactions under the Previous Master S&P Agreement between the parties for the period/year ended 31 December 2018, 2019 and 2020;
- (ii) the Kelun Group's estimated demand for the Material B for the period/years ending 31 December 2021, 2022 and 2023, with reference to its expected production capacities for its end products, existing and expected orders of products and expected market demands for the Kelun Group's products;

LETTER FROM THE BOARD

- (iii) the Group's expected production capacities of the Material B for the period/years ending 31 December 2021, 2022 and 2023;
- (iv) the expected unit prices of the Material B provided by the Group with reference to prices of comparable materials in the price lists of the Group and relevant market prices; and
- (v) estimated buffer for fluctuation of market prices and change in specifications.

Shareholders and potential investors of the Company should note that the above proposed annual caps are not intended, and do not purport, to be an indication of the Group's future performance or profitability. Shareholders or potential investors of the Company should not rely on the proposed annual caps in deciding how or whether or not to deal in the Shares.

INFORMATION ON THE MATERIALS TO BE PURCHASED/SOLD UNDER THE MASTER SALE AND PURCHASE AGREEMENT

The Material A to be purchased by the Group from the Kelun Group under the Master Sale and Purchase Agreement includes pharmaceutical materials used for manufacturing of products of the Group including but not limited to erythromycin thiocyanate, aseptic bag and subcontracted fat emulsion injection.

The Material B to be purchased by the Kelun Group from the Group under the Master Sale and Purchase Agreement includes pharmaceutical materials including but not limited to co-extrusion films, synthetic polyisoprene liners and various types of bulk drugs.

INFORMATION ON THE PARTIES

Information on the Company and the Group

The Company is a company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in the research, development, manufacturing and selling of a wide range of finished medicines, bulk pharmaceuticals products and medical materials.

Information on the Kelun Group

Sichuan Kelun is a substantial shareholder of the Company and a company the shares of which are listed on the Shenzhen Stock Exchange. The Kelun Group is principally engaged in the research, development, manufacturing and selling of various pharmaceutical products and materials. The ultimate beneficial owner of Sichuan Kelun is Mr. Liu Gexin (劉革新).

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Group and each transaction under the Master Sale and Purchase Agreement will be negotiated on an arm's length basis and be conducted on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties.

It is in the interests of the Company to purchase materials from the Kelun Group as the prices are more competitive compared to the prices offered by other independent third-party suppliers. The Master Sale and Purchase Agreement does not limit the types of materials or products to be purchased by the Company from the Kelun Group or by the Kelun Group from the Company. From 2020, the Kelun Group, owing to recent changes to its production scale, has been able to provide larger quantities of materials to the Company. As at the Latest Practicable Date, the Company understands that the Kelun Group is one of few suppliers in the PRC in respect of the raw materials (in particular erythromycin thiocyanate) required to produce the Group's products (i.e. azithromycin). The Master Sale and Purchase Agreement and the proposed annual caps for the Company's purchases from the Kelun Group for the Material A has the benefit of enhancing stable and reliable supply of relevant materials necessary for the manufacturing of products of the Company at favourable and competitive prices under the current market conditions. It has been the Group's business plan to expand its production and sales of its azithromycin, which require increased supplies of erythromycin thiocyanate. In line with such business plan, the Group has revised the annual cap for the Material A on 24 April 2020. However, in light of the outbreak of the COVID-19 pandemic in 2020, the market condition and sales of the Group have generally been affected. As the COVID-19 pandemic has generally been under control in the PRC, and in view of the gradual recovery of the economy after the implementation of effective public health measures in the PRC, the Group is optimistic about the implementation of its business plan. Therefore, the Board considers that the entering into of the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder is in line with the business strategy of the Company and will benefit the future development of the Company and enhance business expansion.

On the other hand, the Board is of the view that the sale of pharmaceutical materials including but not limited to co-extrusion films, synthetic polyisoprene liners and various types of bulk drugs to the Kelun Group will also provide a secure source of revenue for the Group and contribute to the implementation of the Group's sale plan. With the abovementioned pricing policies and internal control measures disclosed below, the Company considers that the sale of the Material B to the Kelun Group facilitates and supports the growth of the core business of the Group, and enables the Group to fully leverage on their advantages and to achieve better operating performance.

LETTER FROM THE BOARD

Based on the above, the Directors (including the independent non-executive Directors whose views are set out in the letter from Independent Board Committee in this circular) consider that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and are on normal commercial terms, and that the terms of the Continuing Connected Transactions (including the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

In order to ensure that the pricing policies as contained in the Master Sale and Purchase Agreement and the proposed annual caps are complied with, the Company has adopted the following internal control measures:

- (i) for the purchase of Material A, the Group will keep track of the reference unit prices of the Material A as stated in Menet* (米內網), healthoo.com (健康網) or similar portals in future and at its best effort obtain contemporaneous price quotation(s) from independent third-party supplier(s) for comparable materials of similar type, quantities and quality, for the purpose of ensuring that the prices and terms for the Material A to be offered by Kelun Group to the Company will be based on prevailing market terms and no less favourable to the Company than those offered by other independent third-party suppliers to the Company; and
- (ii) for the sale of Material B by the Company, relevant personnel of the Company will keep track of the transaction records on the sale of materials to other independent third-party purchasers for the purpose of ensuring that the prices and terms for the Material B will be comparable to, or no less favourable than the fair market prices and terms for Material B or similar materials offered to independent third-party purchasers by the Group.

The Group maintains price lists containing historical selling prices of Material B and relevant terms and conditions of such transactions. The information in the price lists is obtained in the course of the Group's operations, including information in respect of transactions entered into by different divisions/departments of the Group. The Company will continue to develop and maintain the price lists so as to include pricing information in relation to materials sold by the Group in the future. Designated personnel of the Group is responsible for the maintenance of the price lists, and the price lists are generally updated as soon as practicable after the materialisation or consummation of a sales transaction. A management personnel of the Group is designated to monitor and supervise the maintenance of the price lists to ensure that up-to-date records are properly kept. The Company will also conduct random checks on the price lists so as to ensure that effective

LETTER FROM THE BOARD

and sound internal control measures are in place so that Continuing connected Transactions in respect of the sale of the Material B to the Kelun Group are conducted on a fair and reasonable basis.

The relevant business units and departments of Group will regularly monitor and review the prices of and terms under which the relevant Material are offered to or purchased from the Kelun Group in order to ensure that the Continuing Connected Transactions are conducted on normal commercial terms, in accordance with the proposed annual caps set by the Company, and the terms are no less favourable to the Group than those available to independent third parties. The Company will designate specific personnel from the internal control department to monitor the Continuing Connected Transactions under the Master Sale and Purchase Agreement and any irregularities in respect of the Continuing Connected Transactions will be reported to the senior management of the Group in a timely manner. The Group will also conduct regular internal checks on a quarterly basis to ensure that the internal control measures in respect of the Continuing Connected Transactions under the Master Sale and Purchase Agreement remain intact and effective.

The Company's external auditors will review the Continuing Connected Transactions under the Master Sale and Purchase Agreement annually to check and confirm (among others) whether the pricing policies have been adhered to, whether the Continuing Connected Transactions were conducted in accordance with the Master Sale and Purchase Agreement and whether the relevant proposed annual caps have been exceeded.

The independent non-executive Directors will review the Continuing Connected Transactions under the Master Sale and Purchase Agreement annually to check and confirm whether such Continuing Connected Transactions have been conducted in the ordinary and usual course of business of the Company, on normal commercial terms, in accordance with the Master Sale and Purchase Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such Continuing Connected Transactions are conducted in accordance with the pricing policies set out in the Master Sale and Purchase Agreement.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Sichuan Kelun is a beneficial holder of 159,870,000 Shares and is through Kelun International interested in 446,852,000 Shares. By virtue of Sichuan Kelun's interests in an aggregate of 606,722,000 Shares (representing approximately 20.0% of the issued share capital of the Company), it is a substantial shareholder of the Company and therefore a connected person under Chapter 14A of the

LETTER FROM THE BOARD

Listing Rules. The Continuing Connected Transactions under the Master Sale and Purchase Agreement between the Company and Sichuan Kelun (including the proposed annual caps) therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Continuing Connected Transactions under the Master Sale and Purchase Agreement (including the proposed annual caps) is higher than 5% but all are less than 25% on an annual basis, the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps) is subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Feng Hao, a non-executive Director of the Company, is the deputy general manager and the secretary to the board of directors of Sichuan Kelun, he is deemed or may be perceived to have a material interest in the Continuing Connected Transactions contemplated under the Master Sale and Purchase Agreement (including the proposed annual caps). Accordingly, Mr. Feng Hao has abstained from voting on the resolution of the Board in connection with the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps).

Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, none of the other Directors have material interest in the Continuing Connected Transactions contemplated under the Master Sale and Purchase Agreement (including the proposed annual caps).

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all three independent non-executive Directors has been formed to consider the terms of the Continuing Connected Transactions (including the proposed annual caps), so far as the interests of the Company and the Independent Shareholders are concerned as a whole.

Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai, being all the independent non-executive Directors, have been appointed by the Board to serve as members of the Independent Board Committee. To the best of knowledge, information and belief of the Directors, no member of the Independent Board Committee has any material interest in the Continuing Connected Transactions.

LETTER FROM THE BOARD

A letter from the Independent Board Committee is set out on pages 23 to 24 of this circular.

INDEPENDENT FINANCIAL ADVISER

Chanceton Capital Partners Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Master Sale and Purchase Agreement and the Continuing Connected Transactions (including the proposed annual caps).

A letter from the Independent Financial Adviser is set out on pages 25 to 45 of this circular.

EGM

The EGM will be convened and held at 3:00 p.m. on Friday, 21 May 2021 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the Independent Shareholders to consider and, if thought fit, approve the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps).

Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the office of the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so desire.

The register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021, both dates inclusive, during which period, no transfer of Shares will be registered. In order to qualify to attend and vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Friday, 14 May 2021.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Sichuan Kelun is a beneficial holder of 159,870,000 Shares and is through Kelun International interested in 446,852,000 Shares. Therefore, each of Sichuan Kelun and Kelun International is deemed to have a material interest in the Continuing Connected Transactions and will be required to abstain from voting on the relevant resolutions in relation to the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps) at the EGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Continuing Connected Transactions and is therefore required to abstain from voting at the EGM for the relevant resolutions.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the EGM shall be voted by poll in accordance with the Listing Rules and the memorandum and articles of association of the Company. The poll results will be announced in accordance with Rule 13.39(5) of the Listing Rules after the conclusion of the EGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 23 to 24 of this circular and the letter from the Independent Financial Adviser set out on pages 25 to 45 of this circular. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions regarding the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps).

The Directors (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) consider that the Continuing Connected Transactions are in the ordinary and usual course of business of the Company and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) recommend all Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM.

FURTHER INFORMATION

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

LETTER FROM THE BOARD

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully,
For and on behalf of the Board
SSY Group Limited
Qu Jiguang
Chairman

* *for identification purpose only*

LETTER FROM INDEPENDENT BOARD COMMITTEE



石四藥集團有限公司 SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2005)

4 May 2021

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS MASTER SALE AND PURCHASE AGREEMENT

We refer to the circular issued by the Company to its shareholders dated 4 May 2021 (the “**Circular**”) of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps), details of which are set out in the letter from the Board contained in the Circular.

Chanceton Capital Partners Limited has been appointed as the Independent Financial Adviser to advise the Independent Shareholders and us in respect of the terms of the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps). Details of the Independent Financial Adviser’s advice and the principal factors and reasons they have taken into consideration in giving such advice are set out on pages 25 to 45 of the Circular. Your attention is also drawn to the letter of the Board set out on pages 4 to 22 of the Circular and the additional information set out in the appendix thereto.

LETTER FROM INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps), the advice of the Independent Financial Adviser and the principal factors and reasons taken into consideration by the Independent Financial Adviser, we are of the opinion that the terms of the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps) are in the ordinary and usual course of business of the Company and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

We, therefore, recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve and ratify the terms of the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the proposed annual caps).

Yours faithfully,

For and on behalf of

The Independent Board Committee of
SSY Group Limited

Mr. Wang Yibing

*Independent non-executive
Director*

Mr. Leung Chong Shun

*Independent non-executive
Director*

Mr. Chow Kwok Wai

*Independent non-executive
Director*

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from the Independent Financial Adviser, Chanceton Capital Partners Limited, to the Independent Board Committee and the Independent Shareholders in respect of the terms of the continuing connected transactions contemplated under the Master Sale and Purchase Agreement (including the proposed annual cap), which has been prepared for the purpose of inclusion in this circular.

 川盟融資有限公司
Chanceton Capital Partners Limited

Chanceton Capital Partners Limited
Flat C, 16/F, MG Tower,
133 Hoi Bun Road,
Kwun Tong,
Kwloon

4 May 2021

*To: The Independent Board Committee
and the Independent Shareholders*

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS – MASTER SALE AND PURCHASE AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Master Sale and Purchase Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 4 May 2021, of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

The Group purchased Material A from the Kelun Group and sold Material B to Kelun Group under the Previous Master S&P Agreement which has expired on 31 December 2020. On 14 April 2021, the Company entered the Master Sale and Purchase Agreement with Sichuan Kelun, pursuant to which (i) the Group conditionally agrees to purchase and the Kelun Group conditionally agrees to sell the Material A; and (ii) the Group conditionally agrees to sell and the Kelun Group conditionally agrees to purchase the Material B on a non-exclusive basis during the period from 14 April 2021 to 31 December 2023.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As set out in the letter from the Board, as at the Latest Practicable Date, Sichuan Kelun is a beneficial holder of 159,870,000 Shares and is through Kelun International interested in 446,852,000 Shares. By virtue of Sichuan Kelun's interests in an aggregate of 606,722,000 Shares (representing approximately 20.0% of the issued share capital of the Company), it is a substantial shareholder of the Company and therefore a connected person under Chapter 14A of the Listing Rules. The Continuing Connected Transactions under the Master Sale and Purchase Agreement between the Company and Sichuan Kelun (including the proposed annual caps) therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Continuing Connected Transactions under the Master Sale and Purchase Agreement (including the proposed annual caps) is higher than 5% but all are less than 25% on an annual basis, the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (including the annual caps) is subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai, has been formed to advise the Independent Shareholders in respect of the terms and the proposed annual caps in relation to the Continuing Connected Transactions under the Master Sale and Purchase Agreement.

INDEPENDENCE DECLARATION

We are not associated or connected with the Company, the counterparties of the Master Sale and Purchase Agreement or their respective core connected persons or associates. As at the Latest Practicable Date, save for this appointment as the independent financial adviser in relation to the Continuing Connected Transactions, we did not have any other relationship with or interests in the Company, the counterparties of each of the Master Sale and Purchase Agreement or their respective core connected persons or associates in the last two years. Accordingly, we consider we are eligible to give independent advice on the Continuing Connected Transactions.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Directors have declared in a responsibility statement set out in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of an in-depth investigation into the businesses and affairs or the prospects of the Company, Sichuan Kelun or any of their respective subsidiaries or associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, our sole responsibility is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Master Sale and Purchase Agreement, we have taken into consideration the following principal factors:

1. Background of and reasons for entering into the Master Sale and Purchase Agreement

Information of the Group

The Company is a company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in the research, development, manufacturing and selling of a wide range of finished medicines, bulk pharmaceuticals products and medical materials.

Information of the Kelun Group

Sichuan Kelun is a substantial shareholder of the Company and the shares of which are listed on the Shenzhen Stock Exchange. The Kelun Group is principally engaged in the research, development, manufacturing and selling of various pharmaceutical products and materials. The ultimate beneficial owner of Sichuan Kelun is Mr. Liu Gexin (劉革新).

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Reasons for entering into the Master Sale and Purchase Agreement

As stated in the Letter from the Board, the entering into of the Master Sale and Purchase Agreement can offer the Group to purchase material from the Kelun Group with a more competitive price when compared to the prices offered by other independent third party suppliers. Besides, the Master Sale and Purchase Agreement does not limit the types of materials or products to be purchased by the Company from the Kelun Group or by the Kelun Group from the Company. Attributable to the enhancement of the scale and utilization of production capacity of the Kelun Group that Kelun Group is able to provide larger quantities of materials to the Company, therefore, the Company can enjoy a stable and reliable supply of relevant materials necessary for the manufacturing of the Company' product at favourable and competitive prices under the current market conditions. In order to cope with the Group's business plan of expansion of its production and sales of its azithromycin which requires erythromycin thiocyanate, the Group increased its purchase quantities of Material A and has revised the annual cap for Material A on 24 April 2020. However, the Group's performance has been affected by the outbreak of COVID-19 in 2020. From the beginning of 2021, in view of the gradual recovery of the economy in the PRC and the trend of recovery in the active pharmaceutical ingredient market in the first quarter of 2021, the Group is optimistic about the implementation of its business plan of expansion in azithromycin.

Moreover, the Board considers that the entering into of the Master Sales and Purchase Agreement will improve the revenue of the Group by the sale of pharmaceutical materials and various types of bulk drugs to the Kelun Group and contribute to the implementation of the Group's sale plan.

After our discussion with the management of the Company, we were given to understand that the quotations offered by the Kelun Group to the Company for the supply of the Material A are no less favourable than those offered to the Company by other independent third parties for the supply of the same materials. And the quotations offered by the Company to the Kelun Group for the sale of the Material B are no less favourable than those offered to other independent third parties for the sale of the same materials.

We understood from the management of the Company about the size, scale and reputation of the Kelun Group and were given to understand that the Kelun Group is one of few supplies in the PRC in respect of the raw materials (in particular erythromycin thiocyanate) required to produce the Group's products. We have discussed the business plan and the operation of the Group with the management of the Company and noted that erythromycin thiocyanate is one of the important raw material required to produce the Group's products.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In light of the above factors and view on the major terms of the said agreement (as elaborated below) and the recovery of the economy in PRC and the active pharmaceutical ingredient market, we are of the view that the entering into of the Master Sale and Purchase Agreement falls within the ordinary and usual course of business of the Group and is in line with the business strategy of the Company and will benefit the future development of the Company and enhance business expansion.

2. Major terms of the Master Sale and Purchase Agreement

Subject matter

On 14 April 2021, the Company entered the Master Sale and Purchase Agreement with Sichuan Kelun, pursuant to which (i) the Group conditionally agrees to purchase and the Kelun Group conditionally agrees to sell the Material A; and (ii) the Group conditionally agrees to sell and the Kelun Group conditionally agrees to purchase the Material B on a non-exclusive basis during the period from 14 April 2021 to 31 December 2023. The Group and the Kelun Group will enter into individual implementation contracts, subject to the terms and conditions in compliance with those of the Master Sale and Purchase Agreement as may be agreed between the relevant parties.

Pricing basis

Pursuant to the Master Sale and Purchase Agreement, the unit prices of the Material A purchased by the Company are determined based on the prevailing market prices from time to time for relevant materials of similar quantities and specifications to ensure that such prices and terms for Materials A to be offered by the Kelun Group are no less favourable to the Group than those offered by other independent third-party suppliers.

In assessing whether the actual unit prices of the Material A purchased by the Company and the terms of the Material A are reasonable and no less favourable to the Group than those offered by other independent third-party suppliers, the Group will (i) compare the unit prices of the Material A to be purchased by the Group with the reference unit prices of the Material A as stated in Menet* (米內網), healthoo.com (健康網) or similar portals in future; and (ii) will at its best effort to obtain price quotation(s) of comparable materials of similar quantities and specifications from independent third-party suppliers for comparison before entering into of individual implementation contracts pursuant to the Master Sale and Purchase Agreement.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In the event that the Group is not able to obtain meaningful contemporaneous price quotations from independent third-party suppliers in the PRC capable of providing the raw materials of similar quantity and quality to the Group as only a very limited number of suppliers in the PRC possess the capacity to produce a large quantity of materials comparable to the order of the Material A expected to be made by the Group to the Kelun Group, the reference price(s) as stated in Menet and healthoo.com would be the primary reference for setting the price of the individual order.

In relation to the purchase of Material A by the Company from the Kelun Group (the “**Purchase Transactions**”), we have discussed with the Company and were given to understand that the Group has in place internal procedures to ensure that the relevant Purchase Transactions as contemplated under the Master Sale and Purchase Agreement will be (i) conduct on normal commercial terms; (ii) negotiated on an arm’s length basis; and (iii) at prevailing market prices no less favourable to the relevant member(s) of the Group than those offered by independent third parties. The Group has authorized a management personnel to review the purchase unit price and terms of the purchase of Material A with reference to the unit price as quoted on Menet and healthoo.com and/or contemporaneous price quotation(s) obtained from other independent third-party supply(iers) (as applicable). As advised by the management of the Company, Menet and healthoo.com are leading integrated professional information service platforms in the PRC focusing on the provision of medical and health information, terminal data and market research services. We have obtained the three largest Purchase Transactions for each of the three years ended 31 December 2020 from the Company and reviewed the transaction documents of these selected samples relating to the historical Purchase Transactions and at least two contemporaneous transactions with other independent third-party suppliers for comparable transactions. Based on our review, we noted that (i) the obtaining and comparison of at least two contemporaneous transactions with other independent third-party suppliers was consistent with the abovementioned pricing policy as stipulated in the Master Sale and Purchase Agreement; (ii) the purchase prices of the Material A were at prevailing market prices no less favourable to the relevant member(s) of the Group than those offered by independent third parties; and (iii) the pricing terms of the Purchase Transactions are fair and reasonable to the Group and on normal commercial terms.

Pursuant to the Master Sale and Purchase Agreement, the unit prices of Material B purchased by the Kelun Group shall be determined by reference to the prices of relevant comparable materials in the price lists of the relevant materials adopted by the Company.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In determining the actual transaction prices and terms of the Material B, the Group will also consider (i) the prices of the corresponding types of the Material B, (ii) the Company's production costs; (iii) the volume of the purchase orders; (iv) the requested packaging requirements; and (v) any other factors affecting the Material B's prices.

In assessing whether the actual transaction unit prices and terms of Material B offered to the Kelun Group are no less favourable than those offered to other independent third-party purchasers by the Group at the material time, the Group will review and compare the unit prices of the Material B offered by the Group to the Kelun Group with at least two recent transaction records of comparable materials offered by the Group to independent third-party customers in the price lists of the Group before entering into individual contracts with the Kelun Group under the Master Sale and Purchase Agreement. In the event that the unit prices of the Material B offered to the Kelun Group by the Group are less favourable to the Group than those offered by the Group to independent third-party customers for comparable materials of similar quality, type and quantity in the price lists of the Group, the Group will not enter into such transactions.

In relation to the sales of the Material B to the Kelun Group (the "**Sale Transactions**"), we have discussed with the Company and were given to understand that the Group has in place internal procedures to ensure that the relevant Sale Transactions as contemplated under the Master Sale and Purchase Agreement will be (i) conduct on normal commercial terms; (ii) negotiated on an arm's length basis; and (iii) at prevailing market prices no less favourable to the relevant member(s) of the Group than those available to independent third parties. The Group has authorized a management personnel to review the sale unit price and the terms of the sales of the Material B with reference to at least two recent transaction records of comparable materials offered by the Group to independent third-party customers in the price lists of the Group before entering into individual contracts with the Kelun Group under the Master Sale and Purchase Agreement. We have obtained the three largest Sale Transactions for each of the three years ended 31 December 2020 from the Company and reviewed the transaction documents of the selected samples relating to these historical Sale Transactions and those with independent third parties of the Group for the comparable transactions. Based on our review, we noted that (i) the obtaining and comparison of at least two recent transaction records of comparable materials offered by the Group to other independent third-party customers was consistent with the abovementioned pricing policy as stipulated in the Master Sale and Purchase Agreement; (ii) the selling unit prices of the Material B were at prevailing market

LETTER FROM INDEPENDENT FINANCIAL ADVISER

prices no less favourable to the relevant member(s) of the Group than those offered to independent third parties; and (iii) the pricing terms of the Sale Transactions are fair and reasonable to the Group and on normal commercial terms.

Based on the above, as well as the internal control measures as set out in the section headed “Internal control measures” in the Letter from the Board contained in the Circular, we concur with the view of the Directors that pricing basis and terms of the Master Sale and Purchase Agreement are fair and reasonable, on normal commercial terms and in the interests of the Group and the Independent Shareholders as a whole.

3. The annual Caps

i. Annual caps for the purchase of the Material A (the “Proposed Purchase Caps”)

Background on the Proposed Purchase Caps and historical transaction amounts

The following tables set out the (i) historical annual caps of the purchases of the Material A by the Group from the Kelun Group for each of the three years ended 31 December 2020; (ii) the actual transaction amounts of the purchases of the Material A by the Group from the Kelun Group for each of the three years ended 31 December 2020 and (iii) Proposed Purchase Caps for each of the three years ending 31 December 2023:

	For the year ended 31 December		
	2018	2019	2020
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Historical annual caps of the purchases of the Material A from the Kelun Group	15,862,800	75,310,000 (revised on 30 September 2019)	196,520,000 (revised on 24 April 2020)
Actual transaction amounts of the purchases of the Material A from the Kelun Group	5,551,000	18,504,000	61,553,000

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Proposed Purchase Caps	For the year ending 31 December		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Purchase of the Material			
A from the Kelun Group	360,500,000	370,000,000	370,000,000

As stated in the Letter from the Board, the Proposed Purchase Caps have been determined based on the following factors:

- (i) The historical annual caps and the actual transaction amounts for the continuing connected transactions under the Previous Master S&P Agreement between the parties for the period/years ended 31 December 2018, 2019 and 2020;
- (ii) The Group's estimated demand for Material A for the period/years ending 31 December 2021, 2022 and 2023 with reference to the Group's expected production capacities for its end products, existing and expected orders of products from the Group's customers and expected market demand for the Group's products;
- (iii) The Kelun Group's expected production capacities for the Material A and the estimated range and quantity of the material available to the Group from the Kelun Group for the period/years ending 31 December 2021, 2022 and 2023;
- (iv) The expected unit prices of the Material A provided by the Kelun Group with reference to prevailing market prices; and
- (v) The estimated buffer for fluctuation of market prices and change in specification.

We noted that the Proposed Purchase Caps represents a significant increase as compared to historical annual caps of the purchases of the Material A by the Group from the Kelun Group. In assessing the fairness and reasonableness of the Proposed Purchase Caps, we have discussed with the management of the Company to understand the principal basis and assumptions in determining the Proposed Purchase Caps, and obtained and reviewed the calculation of the Proposed Purchase Caps.

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(a) Historical transaction amount

As shown in the above tables, the actual transaction amount of the purchase of the Material A from the Kelun Group increased from approximately RMB5.6 million for the year ended 31 December 2018 to approximately RMB18.5 million for the year ended 31 December 2019, representing an increase of approximately 230%. The actual transaction amount of the purchase of the Material A from the Kelun Group increased further to approximately RMB61.6 million for the year ended 31 December 2020, representing an increase of approximately 233%, which exceeded the historical annual caps of the purchase of the Material A from the Kelun Group for the year ended 31 December 2020 under the Previous Master S&P Agreement and the Group has revised the historical annual caps of the purchase of the Material A from the Kelun Group for the year ended 31 December 2020 on 24 April 2020. We understood from the management of the Company that such increase was mainly attributable to the increasing trend in the international and domestic demand and unit price of azithromycin which is manufactured by erythromycin thiocyanate, being one of the Material A, and the enhancement of utilization of production capacity of erythromycin thiocyanate of the Kelun Group.

We also noted that the actual transaction amount of the Group's purchase of the Material A for the year ended 31 December 2020 was short of the revised historical annual caps of the purchases of the Material A from the Kelun Group for 2020. As advised by the management of the Company, the market condition and sales of active pharmaceutical ingredients of the Group have been affected by the prolonged impact of the COVID-19 pandemic throughout 2020. The shortfall resulted from (i) the decrease in the actual sales and export of active pharmaceutical ingredient caused by the limitation brought to international and domestic logistic and transaction as a result of public health and safety measures implemented by the government; (ii) the lower production efficiency resulted from the upgrade of the azithromycin production facilities of the Group; and (iii) the more prudent approach in term of the business expansion adopted by the Group in order to maintain a sufficient liquidity level. As a result, the actual purchase of erythromycin thiocyanate by the Group from the Kelun Group was approximately 205 tons for the year 2020 which is significantly lower than the originally planned purchase size of approximately 600 tons in aggregate for the

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year 2020. In respect of the above, we concur with the Directors that the actual transaction amounts of the purchase of the Material A from the Kelun Group in 2020 cannot fully reflect the future demand of the Group regarding the purchase of the Material A from the Kelun Group.

- (b) Estimated demand of the Group and the Kelun Group's expected production capacities for the Material A

As discussed with the management of the Company and after having reviewed the calculation of the Proposed Purchase Caps, we understood that the assumptions and factors in determining the Proposed Purchase Caps include the estimated demand of the Group for the Material A which is referenced to the Group's expected production capacities for its end products, existing and expected orders of the products from the Group's customers and expected market demand for the Group's products. We also noted that the Material A to be purchased by the Group from the Kelun Group for the three years ending 31 December 2023 are mainly erythromycin thiocyanate, which plays an irreplaceable role as an intermediate for the production of the Group's products (i.e. azithromycin). Azithromycin is an active pharmaceutical ingredient produced by the Group for sales. As advised by the management of the Company, there is an increase in the demand for azithromycin in recent years as the clinical medicine community found that the first-generation erythromycin preparations represented by azithromycin, clarithromycin and roxithromycin are particularly effective against 9 common clinical pediatric infectious diseases.

As stated in the Letter from the Board, azithromycin is one of the active pharmaceutical ingredients associated with the preparation of COVID-19 drugs, and the management of the Company has observed an increasing trend in the global COVID-19 associated active pharmaceutical ingredients market. We have reviewed the market information in relation to the supply of azithromycin in China published on <http://www.ceicdata.com> and the market information in relation to the global market for azithromycin published on <https://www.pharmaceuticalonline.com>, we concur with the view of the management of the Company that the COVID-19 associated active pharmaceutical ingredients market is expected to grow at a decent growth rate from now to 2023.

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As stated in the Letter from the Board, from the beginning of 2021, the COVID-19 pandemic has been under control in the PRC due to effective hygiene and public health measures, which has led to a gradual improvement in economic activities and consumptions. The Company has seen a trend of recovery in the active pharmaceutical ingredient market as well as general increases in the unit price of active pharmaceutical ingredients including azithromycin in the first quarter of 2021. With an increasing vaccination rate and facing the normality under the COVID-19 pandemic, the Group intends to resume and continue with its previously set direction and has expanded its production line of azithromycin. The annual production plan for azithromycin for 2021-2023 is approximately 500 tons which has increased by 1.5 times, from approximately 200 tons per year in 2020. As stated in the Letter from the Board, as at mid-April 2021, the Group was in negotiation with potential customers in respect of the sale of azithromycin in the potential amount of maximum 300 tons for the next three month's production. The annual demand for erythromycin thiocyanate, as raw materials for the production of azithromycin is approximately 800 tons with a vast majority of approximately 750 tons per year expected to be purchased from the Kelun Group.

Regarding the Kelun Group's expected production capacities for the Material A, we have discussed with the management of the Company and were given to understand that the current annual production capacity of erythromycin thiocyanate of the Kelun Group is 3,500 tons which is sufficient to meet the demand of erythromycin thiocyanate of the Company for the production and use of the Company.

(c) Expected unit prices of the Material A

As stated in the Letter from the Board, the expected unit prices of the Material A are determined based on the pricing basis as set out in the section headed "Pricing basis" in the Letter from the Board contained in the Circular. The Group will (i) compare the unit prices of the Material A to be purchased by the Group with the reference unit prices of the Material A as stated in Menet* (米內網), healthoo.com (健康網) or similar portals in future; and (ii) will at its best effort to obtain price quotation(s) of comparable materials of similar quantities and specifications from independent third-party suppliers for comparison before entering into of individual implementation contracts pursuant to the Master Sale and Purchase Agreement.

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We have obtained the three largest Purchase Transactions for each of the three years ended 31 December 2020 from the Company and reviewed the transaction documents of these selected samples relating to the historical Purchase Transactions and at least two contemporaneous transactions with other independent third-party suppliers for comparable transactions. The selected samples and contemporaneous transactions with other independent third-party supplier cover (i) the transactions between the Group and the Kelun Group in relation to the purchase of the Material A for each of the three years ended 31 December 2020; (ii) the transactions between the Group and other independent third-party suppliers in relation to the purchase of the Material A for each of the three years ended 31 December 2020; (iii) the transactions of erythromycin thiocyanate, being the largest portion of the Material A which is fundamental to the production of the products of the Group for each of the three years ended 31 December 2020. The selection of the samples and contemporaneous transactions with other independent third-party suppliers allowed us to compare the unit prices of the Material A, especially erythromycin thiocyanate offered by the Kelun Group to those offered by independent third parties. We consider that the selected sample is sufficient and representative for assessing the fairness and reasonableness of the unit price of Material A under the Previous Master S&P Agreement. Based on our review, we noted that (i) the obtaining and comparison of at least two contemporaneous transactions with other independent third-party suppliers was consistent with the abovementioned pricing policy as stipulated in the Master Sale and Purchase Agreement; (ii) the purchase prices of the Material A were at prevailing market prices no less favourable to the relevant member(s) of the Group than those offered by independent third parties; and (iii) the pricing terms of the Purchase Transactions are fair and reasonable to the Group and on normal commercial terms.

We noted that unit price of erythromycin thiocyanate, being the largest portion of the Material A has increased from RMB300 per KG in 2020 to approximately RMB450 per KG in 2021, representing an increase of approximately 50%. As advised by the management of the Company, we were given to understand that the increase in the unit price of erythromycin thiocyanate was driven by the demand of the erythromycin thiocyanate.

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Our view

Having considered the basis on which the Proposed Purchase Caps is determined as described above, we concur with the Directors that the basis adopted in determining the Proposed Purchase Caps for the Continuing Connected Transactions under the Master Sale and Purchase Agreement is fair and reasonable.

- i. Annual caps for the Sale of the Material B (the “Proposed Sale Caps”)

Background on the Proposed Sale Caps and historical transaction amounts

The following tables set out the (i) historical annual caps of the sales of the Material B by the Group to the Kelun Group for each of the three years ended 31 December 2020; (ii) the actual transaction amounts of the sales of the Material B by the Group to the Kelun Group for each of the three years ended 31 December 2020 and (iii) Proposed Sale Caps for each of the three years ending 31 December 2023:

	For the year ended 31 December		
	2018	2019	2020
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Historical annual caps of the sales of the Material B to the Kelun Group	45,190,000	68,560,000	76,080,000
Actual transaction amounts of the sales of the Material B to the Kelun Group	22,520,000	35,441,000	21,317,000
	For the year ending 31 December		
Proposed Sale Caps	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Sales of the Material B to the Kelun Group	48,500,000	54,000,000	58,000,000

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As stated in the Letter from the Board, the Proposed Sale Caps have been determined based on the following factors:

- (i) the historical annual caps and actual transaction amounts for the continuing connected transactions under the Previous Master S&P Agreement between the parties for the period/year ended 31 December 2018, 2019 and 2020;
- (ii) the Kelun Group's estimated demand for the Material B for the period/years ending 31 December 2021, 2022 and 2023, with reference to its expected production capacities for its end products, existing and expected orders of products and expected market demands for the Kelun Group's products;
- (iii) the Group's expected production capacities of the Material B for the period/years ending 31 December 2021, 2022 and 2023;
- (iv) the expected unit prices of the Material B provided by the Group with reference to prices of comparable materials in the price lists of the Group and relevant market prices; and
- (v) estimated buffer for fluctuation of market prices and change in specifications.

In assessing the fairness and reasonableness of the Proposed Sale Caps, we have discussed with the management of the Company to understand the principal basis and assumptions in determining the Proposed Sale Caps, and obtained and reviewed the calculation of the Proposed Sale Caps.

- (a) Historical transaction amount

As shown in the above tables, the actual transaction amount of the sale of the Material B to the Kelun Group increased from approximately RMB22.5 million for the year ended 31 December 2018 to approximately RMB35.4 million for the year ended 31 December 2019, representing an increase of approximately 57.3%. We understood from the management of the Company that such increase was mainly attributable to higher demand from the Kelun Group for materials such as co-extrusion films and synthetic polyisoprene liners as the demand for the Kelun Group's pharmaceutical products increased. The actual transaction amount of the purchase of the Material B from the Kelun Group decreased to

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approximately RMB21.3 million for the year ended 31 December 2020 due to the outbreak of the COVID-19 in the PRC causing the drop in demand for the Kelun Group's pharmaceutical products. The Directors consider that with the improvement of the COVID-19 pandemic due to the introduction of the vaccines and the strong recovery of the PRC economy, the underlying demand for the Kelun Group's pharmaceutical products, and the sales of the Material B to the Kelun Group will return to the normal level and start to grow, especially in the post-pandemic era as people become more health-conscious. In respect of the above, we concur with the Directors that the actual transaction amounts of the sales of the Material B to the Kelun Group in 2020 did not represent a meaningful reference and is unable to reasonably reflect the future demand of the Kelun Group regarding the purchase of the Material B from the Group.

- (b) Estimated demand of the Kelun Group and the Group's expected production capacities for the Material B

As discussed with the management of the Company and after having reviewed the calculation of the Proposed Sale Caps, we understood that the assumptions and factors in determining the Proposed Sale Caps include the estimated demand of the Kelun Group for the Material B. We also noted that the Material B to be purchased by the Kelun Group for the three years ending 31 December 2023 are mainly co-extrusion films, synthetic polyisoprene liners and various types of bulk drugs. As advised by the management of the Company who have discussed with the management of the Kelun Group, we were given to understand that the Kelun Group is of the view that the expected market demand for its products as well as the demand for the Material B, various types of bulk drugs which are the fundamental raw materials for its therapeutical infusion solutions will increase due to a growing market for therapeutical infusion solutions.

Regarding the Group's expected production capacities for the Material B, we have obtained and reviewed the estimated production capacities of the Material B provided by the management of the Company and compared the estimated production capacities with the estimated demand of the Kelun Group for the Material B, we noted that the Group is able to produce a sufficient amount of the Material B for the production of its own products and the sales of the Material B to the Kelun Group. The amount of the sales of the Material B to the Kelun Group will not adversely affect the operation of the Group.

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(c) Expected unit prices of the Material B

As stated in the Letter from the Board, the expected unit prices of the Material B are determined based on the pricing basis as set out in the section headed “Pricing basis” in the Letter from the Board contained in the Circular. The Group will review and compare the unit prices of the Material B offered by the Group to the Kelun Group with at least two recent transaction records of comparable materials offered by the Group to independent third-party customers in the price lists of the Group before entering into of individual implementation contracts with the Kelun Group under the Master Sale and Purchase Agreement.

We have obtained the three largest Sale Transactions for each of the three years ended 31 December 2020 from the Company and reviewed the transaction documents of the selected samples relating to these historical Sale Transactions and those with independent third parties of the Group for the comparable transactions. The selected samples and historical sale transactions with other independent third-parties of the Group cover (i) the transactions between the Group and the Kelun Group in relation to the sale of the Material B for each of the three years ended 31 December 2020; (ii) the transactions between the Group and other independent third parties in relation to the sale of the Material B for each of the three years ended 31 December 2020 ; (iii) the transactions of major raw material/ingredients of the Material B, for instance co-extrusion films, synthetic polyisoprene liners for each of the three years ended 31 December 2020. The selection of the samples and historical sale transactions with other independent third parties allowed us to compare the unit prices of the Material B, including co-extrusion films, synthetic polyisoprene liners offered to the Kelun Group to those offered to independent third parties. We consider that the selected sample is sufficient and representative for assessing the fairness and reasonableness of the unit price of Material B under the Previous Master S&P Agreement. Based on our review, we noted that (i) the obtaining and comparison of at least two recent transaction records of comparable materials offered by the Group to other independent third-party customers was consistent with the abovementioned pricing policy as stipulated in the Master Sale and Purchase Agreement; (ii) the selling unit prices of the Material B were at prevailing market prices no less favourable to the relevant member(s) of the Group than those offered to independent third parties; and (iii) the pricing terms of the Sale Transactions are fair and reasonable to the Group and on normal commercial terms.

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Our view

Having considered the basis on which the Proposed Sale Caps is determined as described above, we concur with the Directors that the basis adopted in determining the Proposed Sale Caps for the Continuing Connected Transactions under the Master Sale and Purchase Agreement is fair and reasonable.

4. Internal Control Measures

The Group has adopted internal control procedures and corporate governance measures in relation to the Continuing Connected Transactions. As stated in the section headed “Internal control measures” in the Letter from the Board contained in the Circular,

- (i) for the purchase of Material A, the Group will keep track of the reference unit prices of the Material A as stated in Menet* (米內網), healthoo.com (健康網) or similar portals in future and at its best effort obtain contemporaneous price quotation(s) from the independent third-party supplier(s) for comparable materials of similar type, quantities and quality, for the purpose of ensuring that the prices and terms for the Material A to be offered by Kelun Group to the Company will be based on prevailing market terms and no less favourable to the Company than those offered by other independent third-party suppliers to the Company; and
- (ii) for the sale of Material B by the Company, relevant personnel of the Company will keep track of the transaction records on the sale of materials to other independent third-party purchasers for the purpose of ensuring that the prices and terms for the Material B will be comparable to, or no less favourable than the fair market prices and terms for Material B or similar materials offered to independent third-party purchasers by the Group.

The Group maintains price lists containing historical selling prices of Material B and relevant terms and conditions of such transactions. The information in the price lists is obtained in the course of the Group’s operations, including information in respect of transactions entered into by different divisions/departments of the Group. The Company will continue to develop and maintain the price lists so as to include pricing information in relation to materials sold by the Group in the future. Designated personnel of the Group is responsible for the maintenance of the price lists, and the price lists are generally updated as soon as practicable after the materialisation or consummation of a sales transaction. Management personnel of

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the Group are designated to monitor and supervise the maintenance of the price lists to ensure that up-to-date records are properly kept. The Company will also conduct random checks on the price lists so as to ensure that effective and sound internal control measures are in place so that Continuing connected Transactions in respect of the sale of the Material B to the Kelun Group are conducted on a fair and reasonable basis.

The relevant business units and departments of the Group will regularly monitor and review the prices of and terms under which the relevant Material are offered to or purchased from the Kelun Group in order to ensure that the Continuing Connected Transactions are conducted on normal commercial terms, in accordance with the proposed annual caps set by the Company, and the terms are no less favourable to the Group than those available to independent third parties. The Company will designate specific personnel from the internal control department to monitor the Continuing Connected Transactions under the Master Sale and Purchase Agreement and any irregularities in respect of the Continuing Connected Transactions will be reported to the senior management of the Group in a timely manner. The Group will also conduct regular internal checks on a quarterly basis to ensure that the internal control measures in respect of the Continuing Connected Transactions under the Master Sale and Purchase Agreement remain intact and effective.

The Company's external auditors will review the Continuing Connected Transactions under the Master Sale and Purchase Agreement annually to check and confirm (among others) whether the pricing policies have been adhered to, whether the Continuing Connected Transactions were conducted in accordance with the Master Sale and Purchase Agreement and whether the relevant proposed annual caps have been exceeded.

The independent non-executive Directors will review the Continuing Connected Transactions under the Master Sale and Purchase Agreement annually to check and confirm whether such Continuing Connected Transactions have been conducted in the ordinary and usual course of business of the Company, on normal commercial terms, in accordance with the Master Sale and Purchase Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such Continuing Connected Transactions are conducted in accordance with the pricing policies set out in the Master Sale and Purchase Agreement.

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As set out in the section headed “Pricing basis” of this letter, we have obtained and reviewed transaction documents and at least two contemporaneous transactions with other independent third-parties of the three largest Purchase Transactions and Sale Transactions respectively for each of the three years ended 31 December 2020 relating to the historical Purchase Transactions and historical Sale Transactions. Based on the documents reviewed, we noted that the obtaining and comparison of (i) the fee quotations from independent third parties for the Purchase Transactions and (ii) recent transaction records with independent third parties for the Sale Transaction are consistent with the internal control measures mentioned above.

In respect of the continuing connected transactions contemplated under the Previous Master S&P Agreement, we noted from the 2020 annual report of the Company that an annual review of the transactions contemplated under the Previous Master S&P Agreement has been conducted according to Chapter 14A of the Listing Rules and that the independent non-executive Directors have reviewed and confirmed that the transactions contemplated under the Previous Master S&P Agreement were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group’s shareholders as a whole. The 2020 annual report of the Company also confirmed that the Company’s auditors have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. Further, the Master Sale and Purchase Agreement will, pursuant to the Listing Rules, continue to be subject to the review by the independent non-executive Directors and the auditors of the Company at least annually, details of which must be included in the Company’s subsequent published annual reports.

In view of the above, we are satisfied that appropriate internal control measures are in place to govern the conduct of the transactions contemplated under the Master Sale and Purchase Agreement.

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RECOMMENDATION

Having considered the factors and reasons set out in this letter, we are of the opinion that the Master Sale and Purchase Agreement and the transaction contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the transactions contemplated under the Master Sale and Purchase Agreement and the respective Proposed Purchase Caps and Proposed Sale Caps for the three years ending 31 December 2023 are fair and reasonable and in the interests of the Company and Shareholders as a whole. Accordingly, we recommend the independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the transactions contemplated under the Master Sale and Purchase Agreement and the respective Proposed Purchase Caps and Proposed Sale Caps of such transactions for the three years ending 31 December 2023.

Yours faithfully

For and on behalf of

Chanceton Capital Partners Limited

Wong Kam Wah

Managing Director

Mr. Wong Kam Wah is a licensed person registered with the SFC and regarded as a responsible officer of Chanceton Capital Partners Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

(A) RESPONSIBILITY STATEMENT

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

(B) DISCLOSURE OF INTERESTS**(a) Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures**

As at the Latest Practicable Date, the interests and short positions of the Directors, proposed Directors and chief executives of the Company 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), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which were taken or deemed to have been taken under such provisions of the SFO); (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as adopted by the Company, were as follows:

Name	Capacity	Type of interest	Number of Shares	Approximate% of issued share capital of the Company (Note 1)
Mr. Qu Jiguang	Beneficial owner	Long Position	277,746,000	9.18%
	Interest in a controlled corporation (Note 2)	Long Position	769,332,000	25.42%

Name	Capacity	Type of interest	Number of Shares	Approximate% of issued share capital of the Company (Note 1)
Mr. Wang Xianjun	Beneficial owner	Long Position	24,416,000	0.81%
Mr. Su Xuejun	Beneficial owner	Long Position	24,416,000	0.81%

Notes:

1. The percentage is calculated on the basis of 3,027,073,385 Shares in issue as at the Latest Practicable Date.
2. These Shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited (“CPCL”). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in these Shares held by CPCL. Mr. Su Xuejun, a director of the Company, is also a director of CPCL.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, proposed directors and chief executives of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company and any of its associated corporations which were required to be (i) 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 been taken under such provisions of the SFO) or the Model Code adopted by the Company; or (ii) entered in the register required to be kept under Section 352 of the SFO.

(b) Substantial shareholders' and other persons' interests in the Shares and underlying shares

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, other than the interests of the Directors, proposed directors and chief executives of the Company as disclosed above, Shareholders who had interests or short positions in the Shares or underlying shares of the Company of 5% or more which need to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Name of Shareholder	Capacity	Type of interest	Number of Shares	Approximate% of issued share capital of the Company (Note 1)
CPCL (Note 2)	Beneficial owner	Long Position	769,332,000	25.42%
Sichuan Kelun Pharmaceutical Co., Ltd (四川科倫藥業股份有限公司) (Note 3)	Interest of controlled corporation	Long Position	446,852,000	14.76%
	Beneficial owner	Long Position	159,870,000	5.28%
Kelun International Development Co., Ltd (科倫國際發展有限公司) (Note 3)	Beneficial owner	Long Position	446,852,000	14.76%
UBS Group AG (Note 4)	Interest of controlled corporation	Long Position	335,787,335	11.09%

Notes:

1. The percentage is calculated on the basis of 3,027,073,385 Shares in issue as at the Latest Practicable Date.
2. These Shares were registered in the name of and beneficially owned by CPCL. CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in these Shares held by CPCL. Mr. Su Xuejun, a director of the Company, is also a director of CPCL.

3. 446,852,000 Shares were registered in the name of and beneficially owned by Kelun International Development Co., Ltd. (科倫國際發展有限公司). Kelun International Development Co., Ltd. (科倫國際發展有限公司) is held as to 100% by Sichuan Kelun Pharmaceutical Co., Ltd. (四川科倫藥業股份有限公司). By virtue of Part XV of the SFO, Sichuan Kelun Pharmaceutical Co., Ltd. (四川科倫藥業股份有限公司) is deemed to be interested in these Shares held by Kelun International Development Co., Ltd. (科倫國際發展有限公司). Mr. Feng Hao, a non-executive Director of the Company, is the deputy general manager and the secretary to the board of directors of Sichuan Kelun Pharmaceutical Co., Ltd. (四川科倫藥業股份有限公司).
4. Among the interests of UBS Group AG in the Company, 5,142,000 Shares were held through cash settled derivatives (off exchange).

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons or companies who had any interest or short position in the Shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(C) DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

(D) COMPETING INTERESTS

Mr. Feng Hao (a non-executive Director who was appointed on 24 November 2017), has been a deputy general manager and the secretary to the board of directors of Sichuan Kelun (a substantial shareholder of the Company) since April 2014. Sichuan Kelun is engaged in the same industry i.e. manufacturing and selling of intravenous infusion solution as the Group. Although some of the business conducted by Sichuan Kelun are similar to those conducted by the Group, most of them are of different kinds of products and/or at different locations. The Group has been operating independently of, and at the arm's length from, the businesses of Sichuan Kelun. Furthermore, all directors of the Company are reminded of their fiduciary duties to the Group and that they must, in the performance of their duties of directors, avoid actual and potential conflicts of interest and duty. There are three independent non-executive Directors in the Board to ensure that the interests of the independent shareholders are adequately represented. Therefore, the Board is of the view that the interests of the Group and of the Shareholders as a whole are properly safeguarded.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, proposed directors of the Company or their respective close associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

(E) MATERIAL ADVERSE CHANGE

Reference is made to the profit warning announcement of the Company dated 26 February 2021, in which it was disclosed that the profit attributable to equity holders of the Company for the year ended 31 December 2020 is expected to record a drop ranging from 40% to 50% as compared with that of the year ended 31 December 2019. Such expected drop was mainly due to (i) the impact of the COVID-19 novel coronavirus epidemic beginning in early 2020, leading to a significant reduction of human traffic in hospitals which affected the sales (in particular during the first half of year 2020) of the Group's products including intravenous infusion solutions; and (ii) a one-off gain resulted from disposal of assets held for sale of HK\$131,456,000 in year 2019, while there was no such gain in year 2020 (the "**Profit Warning Announcement**").

Save as disclosed in the Profit Warning Announcement and the annual report for the year ended 31 December 2020 of the Company published on 20 April 2021, the Directors confirm that there had been no material adverse change in the financial or trading position or outlook of the Group since 31 December 2020 (the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

(F) DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting, which was significant in relation to the business of the Group; and
- (b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

(G) EXPERT'S QUALIFICATIONS AND CONSENTS

The following are the qualifications of the expert who has given its opinions and advice which are included in this circular:

Name	Qualification
Chanceton Capital Partners Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Master Sale and Purchase Agreement and the Continuing Connected Transaction contemplated thereunder (including the proposed annual caps).

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 4 May 2021 in the form and context in which it is included and all references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

(H) DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the principal place of business of the Company in Hong Kong at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for a period of 14 days from the date of this circular (both days inclusive):

1. this circular;

2. the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;
3. the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from Independent Board Committee” in this circular;
4. the letter from the Independent Financial Adviser, the text of which is set out in the section headed “Letter from Independent Financial Adviser” in this circular;
5. the written consents referred to in the paragraph headed “Expert’s Qualifications and Consents” in this appendix; and
6. the Master Sale and Purchase Agreement.

NOTICE OF EGM

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



石四藥集團有限公司 SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2005)

NOTICE OF EXTRAORDINARY GENERAL MEETING

Words and expressions that are not expressly defined in this notice shall bear the same meaning as those defined in the circular to the shareholders of the Company dated 4 May 2021 (the “**Circular**”), unless the context requires otherwise.

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the Company will be held at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 3:00 p.m. on Friday, 21 May 2021 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, to consider and, if thought fit, to pass with or without amendments the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTION

1. “**THAT:**
 - (a) the Master Sale and Purchase Agreement, a copy of which has been produced to this meeting marked “A” for the purpose of identification, the terms and conditions thereof, and the Continuing Connected Transactions contemplated thereunder be and are hereby approved, confirmed and ratified in all respects;

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- (b) the proposed annual caps for each of the period/years ending 31 December 2021, 2022 and 2023, being the maximum annual transaction amounts payable/receivable by the Group to/from the Kelun Group for the purchase/sale of the Material A/Material B under the Master Sale and Purchase Agreement be and are hereby approved, confirmed and ratified in all respects; and
- (c) the execution of the Master Sale and Purchase Agreement by any one Director be and is hereby approved, confirmed and ratified in all respects, and any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments and take all such steps as such Director in his/her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder.”

By order of the Board
Chow Hing Yeung
Company Secretary

Hong Kong, 4 May 2021

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him/her. A member who is the holder of two or more Shares may appoint more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
3. The register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., on Friday, 14 May 2021.
4. Where there are joint holders of any Share, any one of such persons may vote at any meeting, either in person or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

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5. In order to facilitate the prevention and control of the epidemic and to safeguard the health and safety of the Shareholders, the Company encourages that the Shareholders to consider appointing the chairman of the EGM as his/her proxy to vote on the relevant resolution at the EGM, instead of attending the EGM in person.
6. If Typhoon Signal No. 8 or above, or a “black” rainstorm warning is in effect any time after 12:00 noon on the date of the EGM, the meeting will be postponed. The Company will post an announcement on the Company’s website (www.ssygroup.com.hk) and HKExnews website (www.hkexnews.hk) to notify Shareholders of the date, time and place of the rescheduled meeting.
7. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolution(s) proposed at the EGM shall be voted by poll.

As of the date of this notice, the Board comprises Mr. Qu Jiguang, Mr. Wang Xianjun and Mr. Su Xuejun as executive Directors, Mr. Feng Hao as non-executive Director and Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai as independent non-executive Directors.