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国药集团
SINOPHARM

國藥控股股份有限公司 SINOPHARM GROUP CO. LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)
(Stock Code: 01099)

CONTINUING CONNECTED TRANSACTIONS ENTERING INTO THE PROCUREMENT FRAMEWORK AGREEMENT WITH NATONG GROUP COMPANY

The Board hereby announces that on 28 July 2020, the Company entered into the Procurement Framework Agreement with Natong Group Company, pursuant to which the Group has agreed to procure medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products from the Natong Group.

Beijing Natong holds 40% equity interest in CSIMC, a significant subsidiary of the Company. Natong Group Company is the holding company of Beijing Natong. Therefore, Natong Group Company is a connected person of the Company at the subsidiary level under the Listing Rules. Accordingly, the transactions under the Procurement Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.77 of the Listing Rules) exceed 1% but less than 5%, the transactions under the Procurement Framework Agreement shall be subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

On 28 July 2020, the Company entered into the Procurement Framework Agreement with Natong Group Company, pursuant to which the Group has agreed to procure medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products from the Natong Group.

THE PROCUREMENT FRAMEWORK AGREEMENT

Details of the Procurement Framework Agreement are as follows:

Date: 28 July 2020

Parties: (i) the Company
(ii) Natong Group Company

Term of the Agreement: The Procurement Framework Agreement shall come into effect after being signed by the legal representatives or authorized representatives of both parties and affixed with the company's official seals. The Procurement Framework Agreement shall be effective from the effective date of the Procurement Framework Agreement to 31 December 2022.

Major Terms and Conditions: Pursuant to the Procurement Framework Agreement, the Group has agreed to procure medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products from the Natong Group, and the Natong Group has agreed to sell such products to the Group.

The Group will procure relevant products from the Natong Group on a voluntary and non-compulsory basis and is entitled to procure aforementioned products from any other third parties.

The Procurement Framework Agreement specifies that, upon expiry, the existing agreement will, subject to compliance with the relevant requirements under the Listing Rules and the agreement of the parties, be renewed for a further term of three years.

Pricing Policy: The price of medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products procured by the Group from the Natong Group under the Procurement Framework Agreement will be offered by members of the Natong Group based on the bid-winning price won by members of the Natong Group in the public bidding procedures of the tender offices of Chinese government or hospitals, or the procurement price from medical institutions, deducting the gross profit of distributors at each level.

The Natong Group will on a semi-annual basis, provide the Company and its subsidiaries with the procurement price list of all the specific varieties of related products of the same business type. In the event of major changes in product prices due to changes in industry policies, it will further provide the latest price list of related products in a timely manner.

The Company and/or its subsidiaries, after considering comprehensively a variety of factors relating to the specific product, including but not limited to the price, quality, terms of payment, delivery method, after-sales service, gross profit and average price in the industry (which is obtained from public channels - the bidding prices of the relevant

products, which are won by relevant members of the Natong Group and other independent third parties through their participation in the public bidding process of such products conducted by the tender offices of Chinese governments or hospitals) and going through all necessary internal review and approval procedures of the president and various departments including but not limited to business department, finance department, operation department and quality department of the Company and/or its subsidiaries, will determine whether to accept the procurement price of specific product as offered by members of the Natong Group. If the Company and/or its subsidiaries, after taking into consideration all the above-mentioned factors, consider that the procurement price offered by members of the Natong Group is not in the best interest of the Company and its shareholders, or is not fair and reasonable, they will make the decision not to procure such products from the Natong Group.

Implementation Agreements:

Members of the Group and members of the Natong Group will enter into individual implementation agreements to set out the specific terms and conditions in respect of the procurement of the products thereunder.

Any such implementation agreements will be within the ambit of the Procurement Framework Agreement and shall not contravene the provisions of the Procurement Framework Agreement.

Annual Caps for the Three Years Ending 31 December 2022

Historical figures

Historical transaction amounts in relation to the procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products between the Group and the Natong Group are as follows:

Unit: RMB million

Transactions	Year ended 31 December 2019	Five months ended 31 May 2020
Amounts paid by the Group to the Natong Group in respect of the procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products	732.32	508.24

Note: CSIMC became a subsidiary of the Company on 16 October 2018, and the Natong Group became a connected person of the Company at the subsidiary level after that date. For the period from 16 October 2018 to 31 December 2018 and for the year of 2019, the amounts paid by the Group to the Natong Group in respect of the procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products all fell below the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules.

Annual caps for the three years ending 31 December 2022

The Board resolved that the annual caps for the continuing connected transactions contemplated under the Procurement Framework Agreement for the three years ending 31 December 2022 to be as follows:

Unit: RMB million

Transactions	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
Amounts paid by the Group to the Natong Group in respect of the procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products	1,500	1,800	2,000

Basis of determination of the annual caps

The above annual caps for the continuing connected transactions contemplated under the Procurement Framework Agreement were mainly determined with reference to the historical transaction figures as listed above and after taking into consideration the following factors:

- (i) although the Group's sales of medical devices were affected by the COVID-19 pandemic in the first half of 2020, considering that medical institutions will gradually resume normal operations in the second half of the year, the Group's sales of medical devices are expected to see rebounding growth in the second half of 2020, which will lead to a significant increase in the Group's procurement of medical device products from the Natong Group in the second half of the year;
- (ii) the Group continues to expand the scale of its member companies through mergers and acquisitions, which will increase the number of customers and the demand for medical device products, leading to the continuous expansion of the size of transactions between the Group and the Natong Group;
- (iii) the Natong Group also continues to expand the scale of its member companies through mergers and acquisitions, which will increase the number and varieties of medical device products, also leading to the continuous expansion of the size of transactions between the Group and the Natong Group;
- (iv) with the implementation of the "Two Invoice System" and the "GPO" policies in the medical device distribution industry, the market concentration of the medical device distribution industry will continue to increase, the market share of the Group's device distribution business may increase accordingly, and thereby the procurement volume from the Natong Group may also increase; and
- (v) the inclusion of a buffer for the estimated amount of procurement of the medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products by the Group from the Natong Group under the Procurement Framework Agreement so as to accommodate any unexpected increase in the aforesaid transaction volume amount (as a result of any unexpected increase in market demand) or unexpected increase in the cost of supply during the period of the Procurement Framework Agreement.

Reasons for and Benefit of the Procurement Framework Agreement

As a medical enterprise in China integrating R&D, production, marketing, and medical services, the Natong Group has rich experience and high-quality service systems in relation to the products under the Procurement

Framework Agreement. Considering that the procure amount of the Group from the Natong Group has increased year by year, the Group and the Natong Group decided to enter into the Procurement Framework Agreement to regulate the Group's procurement of related products from the Natong Group. The Directors are of the view that the Procurement Framework Agreement will enable the Group to (i) obtain a stable supply of related products from the Natong Group in the ordinary course of business, which will help the Group operate in a continuous and stable manner; and (ii) fully leverage the Natong Group's advantages to achieve better operating results.

None of the Directors of the Company has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

The Directors (including the independent non-executive Directors) are of the view that the Procurement Framework Agreement was entered into on normal commercial terms in the ordinary course of business of the Group, the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

MEASURES OF INTERNAL CONTROL

To ensure the Group's conformity with the above pricing policies in relation to the continuing connected transactions contemplated under the Procurement Framework Agreement from time to time, the Company has adopted and would continue to strengthen a series of internal control policies for its daily operation.

The business department, finance department, operation department, legal department, quality department and other functional departments of the relevant members of the Group are responsible for (1) reviewing various implementation agreements under the Procurement Framework Agreement, including but not limited to the pricing policy, payment arrangements and transaction amount, to monitor whether the transaction terms of each implementation agreement are consistent with the principles established under the Procurement Framework Agreement; (2) evaluating the fairness of transaction terms and pricing terms on an on-going basis; and (3) reporting relevant information to the board of directors of member companies in a timely manner. After the aforementioned functional departments having reviewed and approved the implementation agreements, the board of directors of the Company and/or relevant subsidiaries will further review and approve the necessity, reasonableness, fairness, and compliance of relevant connected transactions. The finance department of the Company is responsible for continuously monitoring the actual transaction amount of transactions under the Procurement Framework Agreement to ensure that it does not exceed the annual caps.

In addition, the independent non-executive Directors of the Company will review the continuing connected transactions contemplated under the Procurement Framework Agreement to ensure that these agreements are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditors of the Company will also conduct an annual review on the pricing terms and annual caps of such continuing connected transactions.

The Directors consider that the above methods and procedures can ensure the continuing connected transactions contemplated under the Procurement Framework Agreement will be conducted on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements.

LISTING RULES IMPLICATIONS

Beijing Natong holds 40% equity interest in CSIMC, a significant subsidiary of the Company. Natong Group Company is the holding company of Beijing Natong. Therefore, Natong Group Company is a connected person of the Company at the subsidiary level under the Listing Rules. Accordingly, the transactions under the

Procurement Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.77 of the Listing Rules) exceed 1% but less than 5%, the transactions under the Procurement Framework Agreement shall be subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL INFORMATION OF THE PARTIES

The Company

The Company is principally engaged in the distribution of pharmaceutical, healthcare products, and medical devices, operation of retail pharmacies, and production and sales of chemical reagents. The ultimate controlling shareholder of the Company is CNPGC, a state wholly-owned enterprise established in China. CNPGC is principally engaged in the R&D of pharmaceutical products, manufacturing, logistics and distribution, retail chains, medical health, engineering technology, professional exhibition, international operation business, financial investment and other businesses.

Natong Group Company

Natong Group Company is principally engaged in the R&D, production and sales of medical devices and medical services. Its ultimate beneficial owner is Mr. Zhao Yiwu.

DEFINITIONS

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

“30%- controlled company”	has the meaning ascribed to it under the Listing Rules
“Beijing Natong”	Beijing Natong Shichuang Investment Management Co., Ltd.(北京納通實創投資管理有限公司), a company incorporated in the PRC with limited liability
“Board”	the board of directors of the Company
“CNPGC”	China National Pharmaceutical Group Co., Ltd. (中國醫藥集團有限公司), a state wholly-owned enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company
“Company”	Sinopharm Group Co. Ltd., (國藥控股股份有限公司), a joint stock company incorporated in the PRC with limited liability and whose H shares are listed and traded on the Stock Exchange
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules

“connected person”	has the meaning ascribed to it under the Listing Rules
“CSIMC”	China National Scientific Instruments and Materials Co., Ltd.(中國科學器材有限公司), a company incorporated in the PRC with limited liability
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are subscribed for and fully paid up in Renminbi by PRC nationals and/or PRC incorporated entities
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which is/are listed and traded on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Natong Group Company”	Beijing Natong Technology Group Co., Ltd.(北京納通科技集團有限公司), a company incorporated in the PRC with limited liability
“Natong Group”	Natong Group Company, its subsidiaries and 30%-controlled companies
“Procurement Framework Agreement”	the Procurement Framework Agreement entered into between the Company and Natong Group Company on 28 July 2020
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the share(s) of the Company with a nominal value of RMB1.00 per share, including Domestic Share(s) and H Share(s)
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Sinopharm Group Co. Ltd.
Li Zhiming
Chairman

Shanghai, the PRC
28 July 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Li Zhiming, Mr. Yu Qingming and Mr. Liu Yong; the non-executive Directors of the Company are Mr. Chen Qiyu, Mr. Ma Ping, Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Wen Deyong, Ms. Guan Xiaohui and Ms. Feng Rongli; and the independent non-executive Directors of the Company are Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong, Mr. Zhuo Fumin and Mr. Chen Fangruo.

** The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name "Sinopharm Group Co. Ltd."*