
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular, you should obtain independent professional advice.

If you have sold or transferred all your H Shares in **Sinopharm Group Co. Ltd.**, you should at once hand this circular together with the form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**(1) CONTINUING CONNECTED TRANSACTION: ENTERING INTO THE 2020
PROCUREMENT FRAMEWORK AGREEMENT;
(2) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED
TRANSACTION: ENTERING INTO THE 2020 FINANCIAL SERVICES
FRAMEWORK AGREEMENT; AND
NOTICE OF EGM**

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



A letter from the Board is set out on pages 5 to 25 of this circular. A notice convening the EGM to be held at Meeting Room 1401, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the PRC, at 9:00 a.m. on Friday, 18 December 2020, is being dispatched to the Shareholders together with this circular.

Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the appropriate proxy form in accordance with the instructions printed thereon. The proxy form must be signed by you or your attorney duly authorized in writing or, in case of a legal person, must either be executed under its seal or under the hand of its director or other attorney duly authorized to sign the same. If the proxy form is signed by an attorney of the appointor, the power of attorney authorizing the attorney to sign, or other document of authorization, must be notorially certified.

In the case of joint holders of the shares of the Company, only the holder whose name stands first in the register of members of the Company shall alone be entitled to vote at the EGM, either in person or by proxy in respect of such shares.

For holders of H Shares, please return the proxy form together with any documents of authority to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM or any adjournment thereof. For holders of Domestic Shares, please return the proxy form together with any documents of authority to the Board Office of the Company in the PRC at Room 1210, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the PRC as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM, or any adjournment thereof should you so wish.

27 November 2020

* 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."

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DEFINITIONS

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

“2017 Financial Services Framework Agreement”	means the financial services framework agreement entered into between the Company and Sinopharm Group Finance Company on 27 October 2017 in relation to the provision of the financial services by Sinopharm Group Finance Company to the Company and/or its subsidiaries
“2017 Procurement Framework Agreement”	means the pharmaceutical products, personal-care supplies and medical devices procurement framework agreement entered into between the Company and CNPGC on 27 October 2017
“2020 Financial Services Framework Agreement”	means the financial services framework agreement entered into between the Company and Sinopharm Group Finance Company on 22 October 2020 in relation to the provision of the financial services by Sinopharm Group Finance Company to the Company and/or its subsidiaries
“2020 Procurement Framework Agreement”	means the procurement framework agreement entered into between the Company and CNPGC on 22 October 2020
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	means the board of directors of the Company
“CBIRC”	means the China Banking and Insurance Regulatory Commission
“CNBG”	means China National Biotech Group Company Limited (中國生物技術股份有限公司), a joint stock company incorporated in the PRC with limited liability
“CNPGC”	means 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
“CNPGC Group”	means CNPGC and its subsidiaries and associates (excluding the Group)
“CNTCM”	means China National Traditional Chinese Medicine Co., Limited (中國中藥有限公司), a company incorporated in the PRC with limited liability

DEFINITIONS

“Company”	means Sinopharm Group Co. Ltd., (國藥控股股份有限公司), a joint stock company incorporated under the laws of the PRC with limited liability and whose H shares are listed and traded on the Hong Kong Stock Exchange
“controlling shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSIMC”	means 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
“Deposit Cap(s)”	means the proposed maximum daily balances of deposits (including accrued interests) placed by the Group with Sinopharm Financial Group Company during the term of the 2017 Financial Services Framework Agreement or the 2020 Financial Services Framework Agreement, as the case may be
“Director(s)”	means the director(s) of the Company
“Domestic Share(s)”	means 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
“EGM”	means the extraordinary general meeting of the Company to be convened at Meeting Room 1401, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the PRC at 9:00 a.m. on Friday, 18 December 2020
“Group”	means the Company and its subsidiaries
“H Share(s)”	means 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 Hong Kong Stock Exchange
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Independent Board Committee”	means an independent board committee of the Board comprising all of the independent non-executive Directors, who have no material interests in the 2020 Procurement Framework Agreement and the 2020 Financial Services Framework Agreement, namely Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung, and Mr. Yu Weifeng
“Independent Financial Adviser” or “Gram Capital”	means Gram Capital 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 (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof
“Independent Shareholders”	means Shareholders other than CNPGC and its associates
“Latest Practicable Date”	means 23 November 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Other Financial Services”	means bill acceptance and discounting services, finance lease services, settlement services and entrustment loan agency services provided by Sinopharm Group Finance Company to the Company and/or its subsidiaries under the 2017 Financial Services Framework Agreement or the 2020 Financial Services Framework Agreement, as the case may be
“PBOC”	means the People’s Bank of China
“PRC”	means the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	means Renminbi, the lawful currency of the PRC
“Shareholder(s)”	means the shareholder(s) of the Company
“Shyndec Pharmaceutical”	means Shanghai Shyndec Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司), a joint stock company incorporated in the PRC with limited liability

DEFINITIONS

“Sinopharm Group Finance Company”	means Sinopharm Group Finance Co., Ltd. (國藥集團財務有限公司), a company incorporated under the laws of the PRC with limited liability, which is a non-bank financial institution
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Supervisor(s)”	means the supervisor(s) of the Company

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Li Zhiming
Mr. Yu Qingming
Mr. Liu Yong

Non-executive Directors:

Mr. Chen Qiyu
Mr. Ma Ping
Mr. Hu Jianwei
Mr. Deng Jindong
Mr. Wen Deyong
Ms. Guan Xiaohui
Ms. Feng Rongli

Independent Non-executive Directors:

Mr. Zhuo Fumin
Mr. Chen Fangruo
Mr. Li Peiyu
Mr. Wu Tak Lung
Mr. Yu Weifeng

Registered Office in the PRC:

6th Floor, No. 221
Fuzhou Road
Shanghai 200002,
the PRC

*Principal Place of Business in
Hong Kong:*

Room 1601,
Emperor Group Center,
288 Hennessy Road, Wanchai,
Hong Kong

27 November 2020

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION: ENTERING INTO THE 2020
PROCUREMENT FRAMEWORK AGREEMENT;
(2) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED
TRANSACTION: ENTERING INTO THE 2020 FINANCIAL SERVICES
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LETTER FROM THE BOARD

I. INTRODUCTION

Reference is made to the announcement of the Company dated 22 October 2020 in relation to the renewal of certain continuing connected transactions of the Company.

On 22 October 2020, the Company and CNPGC entered into the 2020 Procurement Framework Agreement, and set the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2023. On the same day, the Company and Sinopharm Group Finance Company entered into the 2020 Financial Services Framework Agreement and set the annual caps for the continuing connected transactions contemplated thereunder, including the Deposit Caps, for the three years ending 31 December 2023.

Pursuant to the Hong Kong Listing Rules, the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof, and the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof are subject to the approval by the Independent Shareholders.

The purpose of this circular is to provide you with, among other things, (i) detailed information regarding the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; (ii) detailed information regarding the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (v) a notice convening the EGM.

II. THE 2020 PROCUREMENT FRAMEWORK AGREEMENT

As the term of the 2017 Procurement Framework Agreement will expire on 31 December 2020, the Company and CNPGC entered into the 2020 Procurement Framework Agreement on 22 October 2020 for a term of three years from 1 January 2021 to 31 December 2023, subject to the approval by the Independent Shareholders at the general meeting of the Company. When entering into the 2020 Procurement Framework Agreement, the Company updated the pricing policy thereof, so as to meet the needs of the Group better. Except for this, the 2020 Procurement Framework Agreement is not materially different from the 2017 Procurement Framework Agreement.

1. The 2020 Procurement Framework Agreement

Details of the 2020 Procurement Framework Agreement are as follows:

Date:	22 October 2020
Parties:	(i) the Company
	(ii) CNPGC

LETTER FROM THE BOARD

Term of the Agreement: Subject to the approval by the Independent Shareholders, the 2020 Procurement Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.

Major Terms and Conditions: Pursuant to the 2020 Procurement Framework Agreement, the Group has agreed to purchase products such as pharmaceutical products, personal-care supplies, medical devices and health products from the CNPGC Group; and the CNPGC Group has agreed to sell such products to the Group.

The Group will purchase relevant products from the CNPGC Group on a voluntary and non-compulsory basis and is entitled to purchase the same from any other third parties.

Upon its expiry, the 2020 Procurement Framework Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and the agreement of the parties, be renewed for a further term of three years.

LETTER FROM THE BOARD

Pricing Policy:

The price of pharmaceutical products and medical devices to be purchased by the Group from the CNPGC Group under the 2020 Procurement Framework Agreement will be determined by the parties through arm's length negotiation mainly taking into account (i) the final price according to which the relevant product is sold to hospitals, pharmacies and other institutions (for example, for products that go through the public bidding process, the final price refers to the awarded price; for products that do not go through the public bidding process, the final price refers to the price that the manufacturer files with the government or the selling price to the hospital from the distributor agreed between the manufacturer and the hospital), (ii) the distribution costs of the relevant members of the Group, and (iii) the profit level of the Group on relevant product. The price of products such as personal-care products and health products to be purchased by the Group from the CNPGC Group under the 2020 Procurement Framework Agreement will be determined by the parties through arm's length negotiation mainly taking into account the guiding retail price provided by relevant members of the CNPGC Group for the related products, the distribution costs of the relevant members of the Group, and the profit level of the Group on relevant product.

LETTER FROM THE BOARD

Before purchasing products such as pharmaceutical products, personal-care supplies, medical devices and health products from the relevant member of the CNPGC Group, the Company and/or its subsidiaries will (i) consider a variety of factors relating to the relevant products, including but not limited to the price, quality, credit period, delivery method, after-sales service, gross profit and average price in the industry; and (ii) go through all necessary internal review and approval procedures by the president and/or various departments of the Company and/or its subsidiaries (including but not limited to the procurement department, finance department, legal department, quality department and operation department). For products with public bidding price/public procurement price (such as pharmaceutical products), after taking into account the awarded price won in the public bidding process which is held by the tender offices of relevant levels of the PRC government or hospitals and participated by the relevant member of the CNPGC Group and other independent third parties in respect of particular product, geographical location of the products, the market size of products and the above factors stated in (i), the Company and/or its subsidiaries will determine whether to accept the price of the products as offered by members of the CNPGC Group. In respect of one particular product, the Company and/or its subsidiaries will generally refer to the awarded prices in more than 30 provinces. For product without public bidding price/public procurement price, the Company and/or its subsidiaries will generally inquire the quotations offered by not less than three independent third parties in respect of the same product.

LETTER FROM THE BOARD

After considering such factors and going through such internal procedures, the Company and/or its subsidiaries will determine whether to accept the procurement price of the products as offered by members of the CNPGC 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 CNPGC 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 purchase such products from the CNPGC Group.

Payment Arrangements:

Payment arrangements will be negotiated by the parties and stated in individual implementation agreements, but shall be the same as the arrangement with other independent third parties. The credit period of the pharmaceutical products, personal-care supplies, medical devices and health products purchased by the Group from the CNPGC Group will be determined after negotiation with the relevant members of the CNPGC Group, normally ranging from approximately 30 days to 90 days.

Implementation Agreements:

Members of the Group and members of the CNPGC Group will enter into, from time to time and as necessary, 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 2020 Procurement Framework Agreement and shall not contravene the provisions of the 2020 Procurement Framework Agreement.

2. Proposed Annual Caps for the Three Years Ending 31 December 2023

Historical figures

Historical transaction amount between the Group and the CNPGC Group under the 2017 Procurement Framework Agreement is as follows:

LETTER FROM THE BOARD

	Year ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Six months ended 30 June 2020 (RMB)
Transactions			
Amount paid by the Group to the CNPGC Group under the 2017 Procurement Framework Agreement	4,448 million	5,079 million	2,259 million ^{Note}

Note: The statistics only reflects the amount paid by the Group to the CNPGC Group under the 2017 Procurement Framework Agreement for the six months ended 30 June 2020. Taking into account the historical procurement amount paid by the Group to the CNPGC Group and the slowdown of the procurement transactions as a result of outbreak of the COVID-19 pandemic in the first half of 2020, it is estimated that the majority of the transaction amount under the 2017 Procurement Framework Agreement for the year ending 31 December 2020 will be recorded in the second half of 2020.

Proposed annual caps for the three years ending 31 December 2023

The Directors expect the annual caps for the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement for the three years ending 31 December 2023 to be as follows:

	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Transactions			
Transaction amount between the Group and the CNPGC Group under the 2020 Procurement Framework Agreement	7,000 million	8,000 million	9,000 million

Basis of determination of the annual caps

The above estimated annual caps for the continuing connected transactions contemplated under the 2020 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) the number of customers of the Group is expected to continuously increase over the next three years, which will lead to the increase in the Group's demand for pharmaceutical products, personal care products, medical devices, health products and other products, as well as the purchase of relevant products by the Group

LETTER FROM THE BOARD

from the CNPGC Group. The expected increase in the number of customers of the Group in the next three years is mainly attributable to: (a) the expected significant increase of the Group's market share in the pharmaceutical distribution business over the next three years due to the Group's seizing of market share and optimizing of network layout during the period of industry's continuous market concentration resulting from the implementation of policies such as the "volume-based procurement" policy; (b) the expected continuous increase of the scale of retail business operated by the Group in the next three years as a result of the Group's continuous strategic focusing on the retail business; and (c) new customers such as urban hospital consortium, county hospital consortium, private medical institutions and internet hospitals brought by the Group's own business expansion and further expansion of sales network.

- (ii) in accordance with "National Mid-to-long-term Planning on Aging Population" (《國家積極應對人口老齡化中長期規劃》) issued by the State Council of the PRC in 2019, aging population will remain China's basic national condition for a long time. With the aging of China's population, the increasing demand for health and medical services, and the further promotion and deepening of China's medical and health system reform by the government, it is expected that the size of China's pharmaceutical market will continue to grow in the next three years. According to statistics from IQVIA, it is estimated that in the next three years, China's pharmaceutical market will grow as much as 3%-6% per year.
- (iii) taking into account the aforementioned growth factors for procurement demand and with reference to the historical transaction amounts of the Group's procurement of products from the CNPGC Group in 2018 and 2019 and the increase rate, it is estimated that the Group's procurement of related products from the CNPGC Group will increase at a rate of approximately 14% per year from 2021 to 2023, and it is expected that the transaction amount of the Group's purchases of pharmaceutical products, personal care products, medical devices, and health products from the CNPGC Group for the three years ending 31 December 2023 will not exceed RMB7,000 million, RMB8,000 million and RMB9,000 million, respectively.
- (iv) the estimated transaction amounts mentioned in paragraph (iii) above also include a buffer of 5%-6% for each of the three years ending 31 December 2023 to accommodate any unexpected growth of the above-mentioned transaction amounts during the term of the 2020 Procurement Framework Agreement.

3. 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 sale of chemical reagents.

LETTER FROM THE BOARD

CNPGC

CNPGC is a wholly state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company, which is principally engaged in the research and development of pharmaceutical products, manufacturing, logistics and distribution, retail chains, medical health, engineering technology, professional exhibition, international operation business, financial investment and other businesses.

4. Reasons for and Benefit of the 2020 Procurement Framework Agreement

The CNPGC Group is the largest pharmaceutical group in China and is a well-known pharmaceutical corporation with outstanding competency in pharmaceutical industry and has developed good experience and service systems in respect of the products under the 2020 Procurement Framework Agreement.

The Directors are of the view that the 2020 Procurement Framework Agreement enables (i) the Group to secure a stable source of the relevant products, supplies and devices from the CNPGC Group in its ordinary course of business, thereby avoiding unnecessary disruption to the Group's operations; and (ii) the Group to fully leverage on the advantages of the CNPGC Group to achieve better operating performance.

5. Measures of Internal Control in Relation to the Transactions Contemplated Under the 2020 Procurement Framework Agreement

To ensure the Company's conformity with the above pricing policy from time to time, the Company has adopted and would continue to strengthen a series of internal control policies for its daily operation:

- (i) prior to entering into the specific agreement for products such as pharmaceutical products, personal-care supplies, medical devices and health products, the president and/or various departments (including but not limited to the procurement department, finance department, legal department, quality department and operation department) of the Company and/or its subsidiaries will conduct all necessary internal review and approval procedures and then determine whether to accept the procurement price of the aforesaid product as offered by members of the CNPGC Group.
- (ii) in addition, the finance department, the audit department and the quality department of the Company will also supervise the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement. These departments are responsible for (i) collecting detailed information (including but not limited to the pricing terms, payment arrangements and actual transaction amount under the specific implementation agreements) of the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement on a regular basis; (ii) monitoring whether the transaction terms and pricing and other terms under each of the individual implementation agreements are consistent with the principles established under the

LETTER FROM THE BOARD

2020 Procurement Framework Agreement; (iii) conducting continuous evaluation on the fairness of the transaction terms and the pricing terms; and (iv) reporting relevant information to the Board in a timely manner.

- (iii) the auditors of the Company would conduct an annual review on the implementation of the pricing terms and annual caps of the non-exempt continuing connected transactions. When conducting the annual review, the Company would provide the auditors with all the required data and information on the continuing connected transactions. The Company and its subsidiaries would also cooperate with the auditors' examination and verification work in a timely manner, and would provide the auditors with relevant implementation agreements for the auditors to review whether such implementation agreements are in compliance with the terms of the framework agreement in any material respects. The finance department of the Company would also maintain close communication with the auditors, so as to timely respond to relevant questions raised by the auditors during the annual review process.
- (iv) the independent non-executive Directors of the Company have reviewed and would continue to review the non-exempt continuing connected transactions contemplated under the 2020 Procurement Framework Agreement to ensure they are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the 2020 Procurement Framework Agreement. When the independent non-executive Directors of the Company conduct such review, the Company would arrange the auditors to report to the independent non-executive Directors on its review of the continuing connected transactions.

The Directors consider that the above methods and procedures can ensure the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement will be conducted on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the 2020 Procurement Framework Agreement.

III. THE 2020 FINANCIAL SERVICES FRAMEWORK AGREEMENT

As the term of the 2017 Financial Services Framework Agreement will expire on 31 December 2020, the Company and Sinopharm Group Finance Company entered into the 2020 Financial Services Framework Agreement on 22 October 2020 for a term of three years from 1 January 2021 to 31 December 2023, subject to the approval by the Independent Shareholders at the general meeting of the Company. The 2020 Financial Services Framework Agreement is not materially different from the 2017 Financial Services Framework Agreement.

1. The 2020 Financial Services Framework Agreement

Details of the 2020 Financial Services Framework Agreement are as follows:

Date: 22 October 2020

Parties: (i) the Company

LETTER FROM THE BOARD

(ii) Sinopharm Group Finance Company

Term of the Agreement:

Subject to the approval by the Independent Shareholders, the 2020 Financial Services Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.

Financial Services Provided by Sinopharm Group Finance to the Company and/or Its Subsidiaries:

Pursuant to the 2020 Financial Services Framework Agreement, the Company and/or its subsidiaries will, from time to time, utilize the following financial services available from Sinopharm Group Finance Company as is deemed necessary. Such services include:

- deposit services;
- loan and entrustment loan services;
- bill discounting and acceptance services, finance lease services, and settlement services; and
- other services approved by CBIRC.

Principle of the Provision of Services:

Under the 2020 Financial Services Framework Agreement, Sinopharm Group Finance Company has undertaken to the Company that whenever it provides financial services to the Company and/or its subsidiaries, the conditions thereof shall neither be less favorable than those offered to other members of the CNPGC Group, nor be less favorable than those available to the Company and/or its subsidiaries from commercial banks or other financial institutions for comparable services.

The Company and/or its subsidiaries will utilize the financial services of Sinopharm Group Finance Company on a voluntary and non-compulsory basis and is not obliged to engage Sinopharm Group Finance Company for any particular service.

LETTER FROM THE BOARD

Sinopharm Group Finance Company may, from time to time, enter into separate individual financial service agreement with the Company and/or its subsidiaries for the provision of specific financial services, provided that the principles as agreed in the 2020 Financial Services Framework Agreement must be followed.

Pricing Policy:

- Deposit services: interest rates shall be in compliance with the requirements on interest rates prescribed by the PBOC for such type of deposits, and shall not be lower than each of (i) the interest rates offered by Sinopharm Group Finance Company to other members of the CNPGC Group for the same category of deposits; and (ii) the interest rates offered to the Company and/or its subsidiaries by general commercial banks for the same category of deposits.
- Loan services: interest rates shall be in compliance with the requirements on interests prescribed by the PBOC for such type of loans, and shall not be higher than each of (i) the interest rates offered by Sinopharm Group Finance Company to other members of the CNPGC Group for the same category of loans; and (ii) the interest rates offered to the Company and/or its subsidiaries by general commercial banks for the same category of loans.
- Other Financial Services: the interests or service fees charged for Other Financial Services shall (i) comply with the standard rates as promulgated by the PBOC or the CBIRC for comparable financial services from time to time (if applicable); (ii) be not higher than the interests or service fees charged by general commercial banks from the Company and/or its subsidiaries for comparable financial services; and (iii) be not higher than the interests or service fees charged by Sinopharm Group Finance Company for comparable financial services from other members of the CNPGC Group.

LETTER FROM THE BOARD

Sinopharm Group Finance Company may provide other services to the Company and/or its subsidiaries as may be approved by the CBIRC in the future. The fees and charges for such services to be provided shall: (i) comply with the standard rates as promulgated by the PBOC or the CBIRC from time to time (if applicable) for comparable financial services; (ii) be not higher than the fees charged by commercial banks from the Company and/or its subsidiaries for comparable financial services; and (iii) be not higher than the fees charged by Sinopharm Group Finance Company for comparable financial services from other members of the CNPGC Group.

2. Proposed Annual Caps for the Three Years Ending 31 December 2023

Historical figures

Historical transaction amount between the Group and Sinopharm Group Finance Company under the 2017 Financial Services Framework Agreement is as follows:

	Year ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Six months ended 30 June 2020 (RMB)
Maximum daily balance of the deposits (including accrued interests) of the Group placed with Sinopharm Group Finance Company	3,483 million	3,458 million	3,466 million

Proposed annual caps for the three years ending 31 December 2023

The Directors expect the annual caps for the deposit services contemplated under the 2020 Financial Services Framework Agreement for the three years ending 31 December 2023 to be as follows:

LETTER FROM THE BOARD

Transactions	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Maximum daily balance of the deposits (including accrued interests) of the Group placed with Sinopharm Group Finance Company	5,000 million	5,000 million	5,000 million

Basis of determination of the annual caps

Under the above-mentioned 2020 Financial Services Framework Agreement, the maximum daily balance of the deposits of the Group placed with the Sinopharm Group Finance Company from 2021 to 2023 is determined mainly with reference to the historical transaction data set out above and taking into account the following factors:

- (i) from 2018 to 2020, the maximum daily balance of the deposits of the Group placed with Sinopharm Group Finance Company was RMB3,483 million, RMB3,458 million and RMB3,466 million, respectively, which were all very close to the annual cap of RMB3,500 million for each of the years from 2018 to 2020. It is expected that the current deposits level will continue to be maintained in the next three years.
- (ii) at the end of 2018, the Company acquired 60% equity interest in CSIMC. After the completion of the acquisition, in order to ensure that the deposits of the Group (as enlarged by the acquisition) placed with Sinopharm Group Finance Company do not exceed the annual caps, CSIMC and its subsidiaries transferred part of their deposits placed with Sinopharm Group Finance Company to third-party commercial banks. If CSIMC and its subsidiaries choose to transfer these deposits back to Sinopharm Group Finance Company in the next three years, it is expected that the maximum daily balance of deposits of the Group placed with Sinopharm Group Finance Company in the next three years will increase by approximately RMB1.5 billion per year. This is estimated with reference to the historical maximum daily balance of deposits of CSIMC and its subsidiaries placed with Sinopharm Group Finance Company before the completion of the acquisition (for example, the maximum daily balance of deposits of CSIMC and its subsidiaries placed with Sinopharm Group Finance Company in 2018 was approximately RMB1.433 billion).

LETTER FROM THE BOARD

3. General Information on 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 sale of chemical reagents.

Sinopharm Group Finance Company

Sinopharm Group Finance Company is a non-bank financial institution established on 23 February 2012 upon the approval of the CBIRC, and is regulated by the PBOC and the CBIRC. Sinopharm Group Finance Company is owned as to 58.1818%, 9.0909%, 10.9091%, 10.9091% and 10.9091% by CNPGC, the Company, CNBG, CNTCM and Shyndec Pharmaceutical respectively, with the registered capital of RMB1.1 billion. CNBG, CNTCM and Shyndec Pharmaceutical are all subsidiaries of CNPGC.

Sinopharm Group Finance Company is engaged in the provision of financial services to the members of the Group and the CNPGC Group which principally include deposit taking, provision of loans, bills acceptance and discounting, finance lease, entrustment loans, settlement services, guarantee, insurance agent business as well as Other Financial Services such as provision of credit certification, financial advisory and other advisory agency services, guarantee services and other services as may be approved by the CBIRC.

4. Reasons for and Benefits of Entering Into the 2020 Financial Services Framework Agreement

The Directors are of the view that utilizing financial services from Sinopharm Group Finance Company continuously has the following benefits:

- (i) the 2020 Financial Services Framework Agreement is non-exclusive and does not limit the Group's choice in engaging any banks or financial institutions to satisfy its need for financial services. Accordingly, the entry into of the 2020 Financial Services Framework Agreement will simply avail the Group to one more service provider and encourage all financial services providers to offer more competitive terms to the Group.
- (ii) the Group will be able to use Sinopharm Group Finance Company as a medium between the Company and its subsidiaries to more effectively allocate funds among the Group and manage its existing capital and cash flow.
- (iii) the Group expects to benefit from Sinopharm Group Finance Company's better understanding of the Group's operations. Such understanding will enable Sinopharm Group Finance Company to offer more favorable, diversified and flexible financial services than third-party commercial banks. Meanwhile, Sinopharm Group Finance Company will provide the Company and its subsidiaries with settlement service for free, which also enables the Group to save settlement expenses.

LETTER FROM THE BOARD

- (iv) in addition, in respect of the deposit services, the interest rates offered by Sinopharm Group Finance Company will not be lower than those offered by commercial banks. The procedures for withdrawal of the deposits are convenient and the categories and term of the deposits are flexible, which will improve the capital utilization efficiency of the Group.
- (v) in respect of the loan services, Sinopharm Group Finance Company offers the Group with favorable interest rates as well as efficient and convenient procedures, which will lower the financing cost of the Group.
- (vi) in respect of the Other Financial Services, by taking advantage of the familiarity with the Group, Sinopharm Group Finance Company can formulate a tailored, flexible and personalized financial service plan for the Group, which is characterized by rapid responses, favorable rates and strong pertinence.

Measures taken for protecting the interests of the Company and its shareholders as a whole in the deposit services transaction

As far as the Directors are aware, Sinopharm Group Finance Company has established stringent internal control measures to ensure effective risk management and compliance with relevant laws and regulations of the PRC. The internal control measures adopted by Sinopharm Finance Group Company include:

- (i) as a non-bank financial institution established with the approval of the CBIRC, Sinopharm Group Financial Company is subject to the routine supervision by the CBIRC. It is subject to the Measures for the Administration of Enterprise Group Finance Companies (《企業集團財務公司管理辦法》) and other regulatory requirements, including the requirements on capital adequacy ratio, guarantee ratio and long-term investment ratio. Since its establishment until the Latest Practicable Date, Sinopharm Group Finance Company has complied with all the relevant requirements from the CBIRC in respect of the above ratios and applicable rules and regulations stipulated by the CBIRC;
- (ii) Sinopharm Group Financial Company is subject to the direct supervision of the PBOC to maintain deposit reserve in full and timely manner, and the deposit reserve ratio of the Sinopharm Group Financial Company shall not be lower than the threshold permitted by the PBOC at all times. Since its establishment until the Latest Practicable Date, Sinopharm Group Financial Company has complied with such regulatory requirements in respect of the deposit reserves;
- (iii) Sinopharm Group Financial Company has formulated a comprehensive internal control management system and risk management system, implemented internal audit supervision system, established risk control committee responsible for its board of directors, established risk management department and audit department to supervise and audit its business activities. Each business department

LETTER FROM THE BOARD

formulates corresponding standardized operation procedures, operation standards and risk prevention measures according to each business, and predicts, evaluates and controls all kinds of risks in business operations; and

- (iv) Sinopharm Group Finance Company has formulated a series of business systems and operating procedures such as the Measures for the Administration of Accounts (《賬戶管理辦法》), the Measures for the Administration of Settlement Business (《結算業務管理辦法》), the Measures for the Administration of Deposit Business (《存款業務管理辦法》) and the Measures for the Administration of Payment and Settlement Authority (《支付結算權限管理辦法》) in accordance with rules and regulations prescribed by the relevant national authorities and the PBOC. These measures provide the operating specifications and control standards for different settlement and deposit businesses, and effectively control business risks. Sinopharm Group Finance Company has also formulated a series of administration measures and operating procedures such as the Measures for the Administration of Customer Credit Rating (《客戶信用評級管理辦法》), the Measures for the Administration of General Credit (《綜合授信管理辦法》) and the Measures for the Administration of Self-operated Loan Business (《自營貸款業務管理辦法》) in accordance with the Lending General Provisions (《貸款通則》), the Measures for the Administration of Enterprise Group Finance Companies (《企業集團財務公司管理辦法》) and the relevant provisions promulgated by the CBIRC and the PBOC, so as to effectively control the risks of credit business.

In addition, at the establishment of Sinopharm Group Finance Company, the board of directors of its parent company CNPGC issued a letter of commitment to the CBIRC, in which CNPGC undertook that it would correspondingly increase its capital investment in Sinopharm Group Finance Company so as to meet its actual needs to solve such difficulties in case that Sinopharm Group Finance Company encounters operational difficulties.

Meanwhile, as described below in the section headed “Measures of Internal Control in Relation to the Continuing Connected Transactions Contemplated Under the 2020 Financial Services Framework Agreement”, the Group also adopted reasonable internal control procedures and corporate governance measures in relation to its utilization of the financial services provided by Sinopharm Group Finance Company.

LETTER FROM THE BOARD

5. Measures of Internal Control in Relation to the Continuing Connected Transactions Contemplated Under the 2020 Financial Services Framework Agreement

In respect of the continuing connected transactions contemplated under the 2020 Financial Services Framework Agreement, the Company has adopted and would continue to take the following review procedures and approval process against the following assessment criteria when obtaining the finance services from Sinopharm Group Finance Company:

- (i) where a need for the financial services arises, the designated staff of the Group would obtain the rates and terms offered by Sinopharm Group Finance Company and not less than three major and independent PRC commercial banks for comparison against the assessment criteria referred to in paragraph (iii) below;
- (ii) if after comparison, the designated staff confirmed that the rates and terms provided by Sinopharm Group Finance Company are no less favourable than those offered by other major and independent PRC commercial banks and are in compliance with the terms set out in the 2020 Financial Services Framework Agreement, they would submit the application to the head of the finance department or the head of the fund management department and chief financial officer of the Company and/or its subsidiaries for final approval.
- (iii) assessment criteria:
 - a) Deposit: the designated staff would compare the interest rate offered by Sinopharm Group Finance Company with those offered by the major commercial banks in the PRC, and compare the interest rates offered to the Group and the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Company for the same category of deposits, and if the former is not lower than the latter, the Group would obtain deposit services from Sinopharm Group Finance Company.
 - b) Loan: the designated staff would compare the interest rate offered by Sinopharm Group Finance Company with those offered by the major commercial banks in the PRC, and compare the interest rates offered to the Group and the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Company for the same category of loans, and if the former is not higher than the latter, the Group would obtain loan services from Sinopharm Group Finance Company.
 - c) Entrusted loan, bill acceptance, discount of bills, settlement, finance lease and other services: the designated staff would compare the interests/service fees charged by Sinopharm Group Finance Company with those charged by the major commercial banks in the PRC, and compare the interests/service fees charged from the Group and the interests/service fees charged from other members of the

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CNPGC Group by Sinopharm Group Finance Company for the same category of services and if the former are not higher than the latter, the Group would obtain the above-mentioned services from Sinopharm Group Finance Company.

- (iv) Sinopharm Group Finance Company will monitor the balance of deposits on each business day. Daily reports on the balance of the Group's deposit placed with Sinopharm Group Finance Company at the end of each month and the maximum deposit balance for the month will be delivered to the Company by Sinopharm Group Finance Company on the first business day of the following month. Furthermore, once the Group's deposit balance placed with Sinopharm Group Finance Company reaches 80% of the annual cap of that year, Sinopharm Group Finance Company will start to report such situation to the finance department of the Company on the following day so that the Company can also carry out real-time monitoring until the daily deposit balance falls below 80% of the annual cap of that year, and then the monthly reporting mechanism will be resumed.
- (v) the independent non-executive Directors of the Company have reviewed and would continue to review the non-exempt continuing connected transactions contemplated under the 2020 Financial Services Framework Agreement to ensure they are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the 2020 Financial Services Framework Agreement. The auditors of the Company would also conduct an annual review on the pricing terms and annual caps of the non-exempt continuing connected transactions contemplated under the 2020 Financial Services Framework Agreement.

The Directors consider that the above methods and procedures can ensure the continuing connected transactions contemplated under the 2020 Financial Services Framework Agreement will be conducted on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the 2020 Financial Services Framework Agreement.

IV. HONG KONG LISTING RULES IMPLICATIONS

CNPGC is the ultimate controlling shareholder of the Company, therefore, CNPGC and its subsidiary Sinopharm Group Finance Company are connected persons of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Financial Services Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in respect of (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement; and (ii) the deposit services under the 2020 Financial Services Framework Agreement exceed 5%, such transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios in respect of the deposit services under the 2020 Financial Services Framework Agreement exceed 5% but are less than 25%, the deposit services thereunder are also subject to the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders on (i) the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed annual caps thereof; and (ii) the deposit services under the 2020 Financial Services Framework Agreement and the proposed annual caps thereof. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The following Directors, being Mr. Ma Ping, Mr. Hu Jianwei and Mr. Deng Jindong, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interests in the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Financial Services Framework Agreement, and thus have abstained from voting on the relevant resolutions at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolutions at the Board meeting.

V. EGM

A notice convening the EGM to be held at 9:00 a.m. on Friday, 18 December 2020 at Meeting Room 1401, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the PRC is set out at the end of this circular.

In accordance with the Hong Kong Listing Rules, CNPGC and its associates will abstain from voting on the resolutions to be proposed at the EGM in relation to (i) the 2020 Procurement Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof, and (ii) the 2020 Financial Services Framework Agreement, the deposit services contemplated thereunder and the proposed Deposit Caps. As at the Latest Practicable Date, CNPGC and its associates hold in aggregate 1,778,845,451 shares of the Company, which represent approximately 57.00% of the total issued share of the Company, control or are entitled to control over the voting right in respect of their shares in the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than CNPGC and its associates, no other connected person of the Company, Shareholders or their respective associate has a material interest in the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Financial Services Framework Agreement and is required to abstain from voting on the relevant resolutions to be proposed at the EGM.

A proxy form to be used at the EGM is also enclosed herein and published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk). Shareholders who intend to appoint a proxy to attend the EGM shall complete, sign and return the appropriate proxy form in accordance with the instructions printed thereon.

For holders of H Shares, the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid. For holders of Domestic Shares, the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of

LETTER FROM THE BOARD

that power of attorney or other authority, must be delivered to the Board Office of the Company in the PRC at Room 1210, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, 200023, the PRC, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.

Pursuant to the articles of association of the Company, for the purpose of holding the EGM, the register of members of H Shares is closed from Wednesday, 18 November 2020 to Friday, 18 December 2020 (both days inclusive), during which period no transfer of H Shares will be registered. Shareholders whose names appear on the register of members of the Company on Wednesday, 18 November 2020 are entitled to attend and vote at the EGM.

VI. RECOMMENDATION

The Directors (excluding the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee) are of the view that the 2020 Procurement Framework Agreement and the 2020 Financial Services Framework Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed Deposit Caps for the deposit services under the 2020 Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Accordingly, the Directors (excluding the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee) recommend the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the EGM.

VII. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 26 to 27 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders; and (ii) the letter from the Independent Financial Adviser on pages 28 to 44 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice.

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

Yours faithfully,
By Order of the Board
Sinopharm Group Co. Ltd.
Li Zhiming
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

27 November 2020

To the Independent Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION: ENTERING INTO THE 2020
PROCUREMENT FRAMEWORK AGREEMENT; AND
(2) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED
TRANSACTION: ENTERING INTO THE 2020 FINANCIAL SERVICES
FRAMEWORK AGREEMENT**

We refer to the circular of the Company dated 27 November 2020 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider and advise you as to whether, in our opinion, (i) the terms of the 2020 Procurement Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof, and (ii) the terms of the 2020 Financial Services Framework Agreement, the deposit services contemplated thereunder and the proposed Deposit Caps, the details of which are set out in the letter from the Board, are fair and reasonable so far as the Independent Shareholders are concerned.

Gram Capital has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of (i) the terms and conditions of the 2020 Procurement Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof, and (ii) the terms and conditions of the 2020 Financial Services Framework Agreement, the deposit services contemplated thereunder and the proposed Deposit Caps. Details of the advice from the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter the text of which are set out on pages 28 to 44 of the Circular.

* *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.”.*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is also drawn to the letter from the Board set out on pages 5 to 25 of the Circular and the additional information set out in the Appendix.

Having considered (i) the terms and conditions of the 2020 Procurement Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof, (ii) the terms and conditions of the 2020 Financial Services Framework Agreement, the deposit services contemplated thereunder and the proposed Deposit Caps, (iii) the interests of the Independent Shareholders, and (iv) the advice of the Independent Financial Adviser, we are of the opinion that the 2020 Procurement Framework Agreement and the 2020 Financial Services Framework Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the proposed Deposit Caps for the deposit services under the 2020 Financial Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM so as to approve (i) the 2020 Procurement Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps thereof, and (ii) the 2020 Financial Services Framework Agreement, the deposit services contemplated thereunder and the proposed Deposit Caps.

Yours faithfully,

For and on behalf of the Independent Board Committee of
SINOPHARM GROUP CO. LTD.

Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu,

Mr. Wu Tak Lung, and Mr. Yu Weifeng

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

27 November 2020

*To: The independent board committee and the independent shareholders of
Sinopharm Group Co. Ltd.**

Dear Sirs,

(I) CONTINUING CONNECTED TRANSACTIONS; AND (II) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the procurement transactions contemplated under the 2020 Procurement Framework Agreement (the “**Procurement Transactions**”); and (ii) deposit services contemplated under the 2020 Financial Services Framework Agreement (the “**Deposit Services**”, together with the Procurement Transactions, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 27 November 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 22 October 2020, the Company and CNPGC entered into the 2020 Procurement Framework Agreement, pursuant to which the Group will procure products (such as pharmaceutical products, personal-care supplies, medical devices and health products) from CNPGC Group for a term of three years from 1 January 2021 to 31 December 2023, subject to the approval by the Independent Shareholders at the general meeting of the Company.

On the even date, the Company and Sinopharm Group Finance Company entered into the 2020 Financial Services Framework Agreement, pursuant to which, the Group will, from time to time, utilize various financial services (including the Deposit Services) available from Sinopharm Group Finance Company as is deemed necessary.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the Board Letter, the Procurement Transactions and the Deposit Services constitute non-exempted continuing connected transactions of the Company, and are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. In addition, the Deposit Services also constitute discloseable transactions of the Company, and are subject to reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung and Mr. Yu Weifeng (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

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

BASIS OF OUR OPINION

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

any statement contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNPGC, Sinopharm Group Finance Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

Background of and reasons for the Transactions

Information on the Group

With reference to the Board Letter, the Company is principally engaged in the distribution of pharmaceutical, healthcare products and medical devices, operation of retail pharmacies and production and sale of chemical reagents.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2019 and the six months ended 30 June 2020 as extracted from the Company's annual report for the year ended 31 December 2019 (the "**2019 Annual Report**") and the interim report of the Company for the six months ended 30 June 2020 (the "**2020 Interim Report**"):

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the six months ended 30 June 2020 <i>RMB'000</i> (Unaudited)	For the year ended 31 December 2019 <i>RMB'000</i> (Audited)	For the year ended 31 December 2018 <i>RMB'000</i> (Audited)	Change from 2018 to 2019 %
Revenue	203,764,712	425,272,726	344,525,821	23.44
– <i>Pharmaceutical distribution</i>	154,671,369	332,091,107	276,985,973	19.89
– <i>Retail pharmacy</i>	10,752,372	19,519,671	14,601,174	33.69
– <i>Medical device</i>	35,455,548	69,013,006	49,009,951	40.81
– <i>Other business</i>	2,885,423	4,648,942	3,928,723	18.33
Profit for the period/year attributable to owners of the Company	2,895,682	6,252,537	5,835,842	7.14
	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)	As at 31 December 2018 <i>RMB'000</i> (Audited)	Change from 2018 to 2019 %
Cash and cash equivalents	39,323,366	39,191,967	40,298,985	(2.75)
Trade and bills receivables	156,106,219	122,266,917	106,423,594	14.89

As illustrated in the above table, the Group recorded an increase in revenue of approximately 23.44% from 2018 to 2019. With reference to the 2019 Annual Report, such increase in revenue was primarily due to the increase in revenue from the Group's pharmaceutical distribution business, retail pharmacy business and medical device business.

As at 30 June 2020, the Group recorded cash and cash equivalents (which directly linked to the Group's proposed demand of Deposit Services) of approximately RMB39,323.4 million and trade and bills receivables (which will convert into cash if such trade and bills receivables are settled) of approximately RMB156,106.2 million.

A. THE PROCUREMENT TRANSACTIONS

Information on CNPGC

With reference to the Board Letter, CNPGC is a wholly state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company, which is principally engaged in the research and development of pharmaceutical products, manufacturing, logistics and distribution, retail chains, medical health, engineering technology, professional exhibition, international operation business, financial investment and other businesses.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Reasons for the Procurement Transactions

With reference to the Board Letter, the CNPGC Group is the largest pharmaceutical group in China and is a well-known pharmaceutical corporation with outstanding competency in pharmaceutical industry and has developed good experience and service systems in respect of the products under the 2020 Procurement Framework Agreement. The Directors are of the view that the 2020 Procurement Framework Agreement enables (i) the Group to secure a stable source of the relevant products, supplies and devices from the CNPGC Group in its ordinary course of business, thereby avoiding unnecessary disruption to the Group's operations; and (ii) the Group to fully leverage on advantages of the CNPGC Group to achieve better operating performance.

As the Procurement Transactions are expected to be conducted in the ordinary and usual course of business of the Group and on a frequent and regular basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Hong Kong Listing Rules, if necessary. Accordingly, the Directors are of the view that the Procurement Transactions will be beneficial to the Company and the Shareholders as a whole.

Having considered that (i) long-term business relationships between the Group and the CNPGC Group; (ii) the Procurement Transactions will allow the Company to have a stable supply source; and (iii) it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Hong Kong Listing Rules, if necessary, we are of the view that the Procurement Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Principle terms of the Procurement Transactions

Set out below are the key terms of Procurement Transactions, details of which are set out under the section headed "The 2020 Procurement Framework Agreement" of the Board Letter.

Date:	22 October 2020
Parties:	(i) the Company (ii) the CNPGC
Term of the Agreement:	Subject to the approval by the Independent Shareholders, the 2020 Procurement Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.
Payment Arrangements:	Payment arrangements will be negotiated by the parties and stated in individual implementation agreements, but shall be the same as the arrangement with other independent third parties.

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Pricing basis

Pursuant to the 2020 Procurement Framework Agreement, the price of pharmaceutical products and medical devices to be purchased by the Group from the CNPGC Group under the 2020 Procurement Framework Agreement will be determined by the parties through arm's length negotiation mainly taking into account of (i) the final price according to which the relevant product is sold to hospitals, pharmacies and other institutions (for example, for products that go through the public bidding process, the final price refers to the awarded price; for products that do not go through the public bidding process, the final price refers to the price that the manufacturer files with the government or the selling price to the hospital from the distributor agreed between the manufacturer and the hospital); (ii) the distribution costs of the relevant members of the Group; and (iii) the profit level of the Group on related product. The price of products such as personal-care products and health products to be purchased by the Group from the CNPGC Group under the 2020 Procurement Framework Agreement will be determined by the parties through arm's length negotiation mainly taking into account to the guiding retail price provided by relevant members of CNPGC Group for the related products, the distribution costs of the relevant members of the Group, and the profit level of the Group on relevant product.

Before purchasing products such as pharmaceutical products, personal-care supplies, medical devices and health products from the relevant member of the CNPGC Group, the Company and/or its subsidiaries will (i) consider a variety of factors relating to the relevant products, including but not limited to the price, quality, credit period, delivery method, after-sales service, gross profit and average price in the industry; (ii) go through all necessary internal review and approval procedures by the president and/or various departments of the Company and/or its subsidiaries (including but not limited to the procurement department, finance department, legal department, quality department and operation department). For products with public bidding price/public procurement price (such as pharmaceutical products), after taking into account the awarded price won in the public bidding process which is held by the tender offices of relevant levels of the PRC government or hospitals and participated by the relevant member of the CNPGC Group and other independent third parties in respect of particular product, geographical location of the products, the market size of products and the above factors stated in (i), the Company and/or its subsidiaries will determine whether to accept the price of the products as offered by members of the CNPGC Group. In respect of one particular product, the Company and/or its subsidiaries will generally refer to the awarded prices in more than 30 provinces. For product without public bidding price/public procurement price, the Company and/or its subsidiaries will generally inquire the quotations offered by not less than three independent third parties in respect of the same product. After considering such factors and going through such internal procedures, the Company and/or its subsidiaries will determine whether to accept the procurement price of the products as offered by members of the CNPGC 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 CNPGC 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 CNPGC Group.

We obtained from the Company eight contracts in total entered into between the Group and (i) CNPGC Group; and (ii) independent third parties during 2018 to 2020 in respect of the purchase of various drugs by the Group. According to the aforesaid documents, there were only two types of

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drugs with the same specifications and simultaneously purchased by the Group from CNPGC Group and an independent third party. The prices of the aforesaid two drugs charged by the CNPGC Group were the same as those charged by the independent third party.

With reference to the Board Letter, to ensure the Company's conformity with the above pricing policy from time to time, the Company has adopted and would continue to strengthen a series of internal control policies for its daily operation. Details of the internal control policies are set out under the section headed "Measures of Internal Control in Relation to the Transactions Contemplated under the 2020 Procurement Framework Agreement" of the Board Letter. We consider that the effective implementation of the internal control policies would help to ensure fair pricing of the Procurement Transactions according to the pricing policies.

According to the internal control policies, the president and/or various departments (including but not limited to the procurement department, finance department, legal department, quality department and operation department) of the Company and/or its subsidiaries will conduct all necessary internal review and approval procedures and then determine whether to accept the procurement price of specific product as offered by members of the CNPGC Group. For our due diligence purpose, we further discussed with the head of Company's relevant departments (i.e. procurement department, finance department, legal department, quality department and operation department)/subsidiaries and understood that staffs of the Company's relevant departments/subsidiaries were aware of the internal control measures as mentioned above and would comply with such measures when conducting the Procurement Transactions.

Having considered our discussion with relevant staffs as mentioned above and our findings on the sales contracts as mentioned above, (i.e. prices of two types of drugs with the same specifications charged by the CNPGC Group was the same as those charged by the independent third party), we do not doubt the effectiveness of the internal control policies.

In light of the above, we are of the view that the terms of the Procurement Transactions are on normal commercial terms and are fair and reasonable.

Proposed annual caps

The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2019 and six months ended 30 June 2020 with existing annual caps; and (ii) the proposed annual caps for the three years ending 31 December 2023 of the Procurement Transactions:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020
	<i>(in RMB million)</i>	<i>(in RMB million)</i>	<i>(in RMB million)</i>
Historical transaction amounts	4,448	5,079	2,259 <i>(Note)</i>
Existing annual cap	6,000	8,000	10,000
Utilisation rate	74.1%	63.5%	N/A

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	For the year ending 31 December 2021 <i>(in RMB million)</i>	For the year ending 31 December 2022 <i>(in RMB million)</i>	For the year ending 31 December 2023 <i>(in RMB million)</i>
Proposed annual caps (the “ Procurement Cap(s) ”)	7,000	8,000	9,000

Note: the figure is for six month ended 30 June 2020.

With reference to the Board Letter, the above estimated annual caps for the Procurement Transactions were mainly determined with reference to the historical transaction figures as listed above and after taking into consideration the factors as summarised below, details of which are set out under the section headed “Basis of determination of the annual caps” of the Board Letter.

According to the above table, we noted that the relevant utilization rate of the previous annual caps were approximately 74.1% and 63.5% for the year ended 31 December 2018 and 31 December 2019 respectively. Upon our enquiry, we understood from the Directors that such difference between the historical transaction amount and relevant existing annual caps was mainly due to the fact that the Group is not obligated to transact with the CNPGC Group and would only do so if it is in the commercial interests of the Group.

As advised by the Directors, the Procurement Cap for the year ending 31 December 2021 was determined with reference to (i) the estimated demand of the Procurement Transactions for the year ending 31 December 2021; and (ii) a buffer of approximately 6%.

In respect of the estimated demand of the Procurement Transactions for the year ending 31 December 2021, the Directors advised that such estimation was made by the Company’s subsidiaries, which was then collected by the Company and further consolidated and reviewed by the Company.

When reviewing the estimated demand of the Procurement Transactions (the “**Estimated Demand**”) for the year ending 31 December 2021, the Directors considered, among other things, historical transactions amount for the three years ended 31 December 2019, the estimated demand of the Procurement Transactions for the year ending 31 December 2020 and implied increase of the demand of Procurement Transactions from 2020 to 2021.

We noted that the Estimated Demand for the year ending 31 December 2021 represented an increase of approximately 14% as compared to that for the year ending 31 December 2020, which also represented an increase of approximately 14% as compared to that for the year ended 31 December 2019.

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We noted that the Group recorded annual increases in the transaction amounts of the Procurement Transactions of 13.0%, 30.8% and 14.2% during 2016 to 2019. Excluding the increase rate of 30.8%, which represented an extreme amount among the aforesaid increase rates and was mainly due to the fully implementation of 兩票制 (Two Invoices System*)^(Note) as advised by the Directors, the estimated increase of 14% was close to the aforesaid increase rates.

Note:

In December 2016, the State Council of the PRC together with seven ministries jointly issued the 《關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)》 (Opinions on Implementation of Two-Invoice System in Drug Procurement by Public Medical Institutions (for Trial Implementation*)) (the “**Opinions**”). Pursuant to the Opinions, among other things, the two-invoice system (the “**Two Invoice System**”) will be required, which generally requires a drug manufacturer to only issue one invoice to its distributor followed by the distributor issuing a second invoice to the end customer hospital. Only one distributor is permitted to distribute drug products between the manufacturer and the hospital under the Two-Invoice System. The Two-Invoice System also encourages manufacturers to sell drug products to hospitals directly with assistance from logistic service providers.

In February 2017, the State Council of the PRC issued 《國務院辦公廳關於進一步改革完善藥品生產流通使用政策的若干意見 (Several Opinions on Further Reform and Improvement of Drug Production, Circulation and Use Policies*)》, pursuant to which the goal to fully implement the Two Invoice System across China by the end of 2018 was reiterated.

Based on the above and as confirmed by the Directors, certain pharmaceutical products (which were previously sold by CNPGC Group to independent third distributor and then re-sold to the Group by such independent third distributor) were directly sold by CNPGC Group to the Group after the full implementation of Two-Invoice System, and then became continuing connected transactions of the Company. Furthermore, after the implementation of Two Invoice System, the CNPGC Group’s sale of certain products to small-to-medium size distributors switched to selling to the Group as the Group has a better distribution network.

In addition, as advised by the Directors, in November 2018, the Joint Procurement Office led by the State Administration for Medical Insurance published 《4+7城市藥品集中採購文件》 (The Papers on Centralized Drug Procurement in “4+7” Cities), which launched the national pilot scheme for centralized volume-based drug procurement. In January 2019, the General Office of the State Council published the 《國務院辦公廳關於印發國家組織藥品集中採購和使用試點方案的通知》 (Notice of Issuing Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State*), which provided additional detailed measures in the implementation of the national pilot scheme for centralized volume-based drug procurement in the “4+7” cities. In September 2019, the Joint Procurement Office published the 《聯盟地區藥品集中採購文件》 (The Papers on Centralized Drug Procurement in Alliance Areas”, which further expanded the scope of centralized volume-based drug procurement to 25 provinces and autonomous regions (except for the “4+7” cities). In December 2019, the Joint Procurement Office published the 《全國藥品集中採購文件》 (The Papers on Centralized Drug Procurement Nationwide*), listing 33 drugs for centralized procurement along with an intended volume commitment for each drug.

As advised by the Directors, despite that the above policies may adversely affect the selling price of relevant drugs, it is probable that the sale volume of such drugs will be substantially increased as the result of the industry polices such as centralized drug procurement.

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As stated in the 2019 Annual Report, during 2019, the Group integrated resource allocation, focused on improving and optimizing the logistics system, implemented the upgrade and transformation of the information system, and strengthened the development and layout of innovative products, so as to build the core competitiveness of innovative services and build a unified national business management and service platform to further enhance the service capabilities and business adhesiveness to the upstream and downstream companies and thereby enhancing their loyalty towards the Group. According to the results of the first-round implementation of centralized drug procurement, the Group has obtained distribution rights in all 11 pilot cities, with exclusive rights to distribute certain products in each city. This further demonstrated the advantages of the Group's distribution network, driving a significant increase in market share and distribution volume of the Group. As also demonstrated in the section headed "Information on the Group" above, the Group's revenue from pharmaceutical distribution recorded an increase of approximately 19.89% during 2019, achieving rapid growth in the pharmaceutical distribution segment and continuous increase in market share.

We also noted that the Procurement Transactions for the six months ended 30 June 2020 represented a decrease of 9.4% as compared to that for the six months ended 30 June 2019. As advised by the Directors, such decrease was mainly due to impact of outbreak of the COVID-19. With reference to the 2020 Interim Report, in the first half of 2020, affected by the decrease in hospital diagnosis and treatment activities during the outbreak of the COVID-19 pandemic, non-pandemic-related pharmaceutical production and service activities were significantly impacted. The pharmaceutical distribution market greatly fluctuated and was in a downward trend as a whole. According to data from the Pharmaceutical Distribution Statistics System of the Ministry of Commerce, the total sales of the seven major categories of pharmaceutical products nationwide recorded a year-on-year decrease of 3.82% in the first half of 2020 (a year-on-year decrease of 8.08% in the first quarter of 2020). While the total sales of the pharmaceutical retail market recorded a year-on-year increase of 9.47% in the first half of 2020 (a year-on-year increase of 9.21% in the first quarter of 2020). On the whole, although the short-term performance of the pharmaceutical industry was affected by the pandemic, as the resumption of work and production progressed in an orderly manner and as also indicated by the above figures, the economic activities of the medical and healthcare industry are further approaching normal levels. As a result of this, coupled with the growth of rigid medical demands driven by population aging and consumption upgrade, the growth rate of the industry is expected to maintain the development trend of being higher than the growth rate of the macro economy in the PRC.

Based on the above factors, we considered the estimated increase of 14% to be acceptable. Accordingly, we also consider that (i) the Estimated Demand for the year ending 31 December 2020, which was based on the historical amount of Procurement Transactions for the year ended 31 December 2019 and the estimated annual increase of 14%, to be acceptable; and (ii) the Estimated Demand for the three years ending 31 December 2023, which based on the Estimated Demand for previous years and the estimated annual increase of 14%, to be acceptable.

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Buffer

As mentioned above, when determining the Procurement Caps for the three years ending 31 December 2023, buffers of approximately 5% to 6% were applied on the Estimated Demand 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 selling prices of relevant drugs during the period of the 2020 Procurement Framework Agreement.

Having considered above factors and the possible further unexpected increase in transaction volume amount due to the results of asset restructuring and/or the implication of the implementation and expansion of the “Centralized Drug Procurement” policy, we consider that the buffer to be acceptable.

In light of the above factors, we consider that the Procurement Caps for the three years ending 31 December 2023 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of revenue/income/cost to be incurred from the Procurement Transactions. Consequently, we express no opinion as to how closely the actual revenue/income to be incurred from the transactions contemplated under the 2020 Procurement Framework Agreement will correspond with the proposed annual caps.

B. DEPOSIT SERVICES

Information on Sinopharm Group Finance Company

With reference to the Board Letter, Sinopharm Group Finance Company is a non-bank financial institution established on 23 February 2012 upon the approval of the CBIRC, and is regulated by the PBOC and the CBIRC. Sinopharm Group Finance Company is owned as to 58.1818%, 9.0909%, 10.9091%, 10.9091% and 10.9091% by CNPGC, the Company, CNBG, CNTCM and Shyndec Pharmaceutical respectively, with the registered capital of RMB1.1 billion. Sinopharm Group Finance Company is engaged in the provision of financial services to the members of the Group the CNPGC Group which principally include deposit taking, provision of loans, bills acceptance and discounting, finance lease, entrustment loans, settlement services guarantee, insurance agent business as well as Other Financial Services such as provision of credit certification, financial advisory and other advisory agency services, guarantee services and other services as may be approved by the CBIRC.

As further advised by the Directors, Sinopharm Group Finance Company is required to operate in compliance with 《企業集團財務公司管理辦法》(Measures on Administration of the Finance Companies of Enterprise Groups*, the “**Administrative Measures**”) promulgated by China Banking Regulatory Commission (now known as CBIRC). We noted that the Administrative Measures set out certain compliance and risk control requirements/measures in relation to the operation of group financing companies, including but not limited to maintaining certain financial ratios at all times.

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As mentioned above, Sinopharm Group Finance Company is a non-banking financial institution regulated by the PBOC and CBIRC, and provides financial services in compliance with the rules and other operational requirements of these regulatory authorities. Pursuant to the Administrative Measures, in the event that a group finance company faces any difficulty in making payment, its controlling shareholder(s) will increase such group finance company's capital accordingly based on the actual need. We noted from Sinopharm Group Finance Company's articles of association that CNPGC, being the controlling shareholder of the Company and the parent company of Sinopharm Group Finance Company, undertook that CNPGC would correspondingly increase its capital investment in Sinopharm Group Finance Company so as to meet its actual needs to solve such difficulties in case that Sinopharm Group Finance Company encounters operational difficulties.

Reasons for and benefits of the Deposit Services

With reference of the Board Letter, the Directors are of the view that utilizing financial services from Sinopharm Group Finance Company continuously has various benefits, details of which are set out under the section headed "Reasons for and Benefits of Entering Into the 2020 Financial Services Framework Agreement" of the Board Letter.

Pursuant to the 2017 Financial Services Framework Agreement and the 2020 Financial Services Framework Agreement, interest rates under the Deposit Services shall be in compliance with the requirements on interest rates prescribed by PBOC for such type of deposits, and shall not be lower than each of (i) the interest rates offered by Sinopharm Group Finance Company to other members of the CNPGC Group for the same category of deposits; and (ii) the interest rates offered to the Company and/or its subsidiaries by general commercial banks for the same category of deposits.

We further noted from the 2020 Financial Services Framework Agreement that the Group will utilize the financial services of Sinopharm Group Finance Company on a voluntary and non-compulsory basis and is not obliged to engage Sinopharm Group Finance Company for any particular service.

In light of the above reasons, in particular:

- (i) the pricing policy of the Deposit Services; and
- (ii) that the Group will utilize the financial services of Sinopharm Group Finance Company on a voluntary and non-compulsory basis and is not obliged to engage Sinopharm Group Finance Company for any particular service,

we consider the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

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Principal terms of the Deposit Services

The following table tabulates a summary of the major terms of the Deposit Services, details of which are set out under the section headed “The 2020 Financial Services Framework Agreement” of the Board Letter:

Date:	22 October 2020
Parties:	(i) the Company (ii) Sinopharm Group Finance Company
Term of the Agreement:	Subject to the approval by the Independent Shareholders, the 2020 Financial Services Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.
Financial Services Provided by Sinopharm Group Finance Company to the Company and/or Its Subsidiaries:	Pursuant to the 2020 Financial Services Framework Agreement, the Company and/or its subsidiaries will, from time to time, utilize the following financial services available from Sinopharm Group Finance Company as is deemed necessary. Such services include but not limited to, the Deposit Services.
Pricing Policy of Deposit Services:	Interest rates shall be in compliance with the requirements on interest rates prescribed by PBOC for such type of deposits, and shall not be lower than each of (i) the interest rates offered by Sinopharm Group Finance Company to other members of the CNPGC Group for the same category of deposits; and (ii) the interest rates offered to the Company and/or its subsidiaries by general commercial banks for the same category of deposits.
Principle of the Provision of Services:	Under the 2020 Financial Services Framework Agreement, Sinopharm Group Finance Company has undertaken to the Company that whenever it provides financial services to the Company and/or its subsidiaries, the conditions thereof shall neither be less favorable than those offered to other members of the CNPGC Group, nor be less favorable than those available to the Company and/or its subsidiaries from commercial banks or other financial institutions for comparable services.

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The Company and/or its subsidiaries will utilize the financial services of Sinopharm Group Finance Company on a voluntary and non-compulsory basis and is not obliged to engage Sinopharm Group Finance Company for any particular service.

Upon our request, we obtained deposit records regarding (i) the Company placed deposits in independent commercial banks and Sinopharm Group Finance Company (the “**Group’s Deposit Records**”); and (ii) members of CNPGC Group placed deposits in Sinopharm Group Finance Company. We noted from the deposit records that the deposit rates as shown in the deposit records are in line with the above-said requirements under the 2017 Financial Services Framework Agreement.

As also advised by the Directors, to secure the interests of Shareholders, the Company adopted certain internal control procedures for utilizing the financial services provided by Sinopharm Group Finance Company. Details of the internal control procedures are set out under the section headed “Measures of Internal Control in Relation to the Continuing Connected Transactions Contemplated under the 2020 Financial Services Framework Agreement” of the Board Letter. Accordingly, we consider that the effective implementation of the internal control procedures would help to ensure fair pricing of the Deposit Services according to the pricing policies. Having also considered our findings on deposit rates as mentioned above, we do not doubt the effectiveness of the implementation of the internal procedures for the Deposit Services.

In light of the above factors, we consider that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable.

Basis of the proposed annual caps under the Deposit Services

Set out below are (i) the historical maximum daily balance of the deposits placed with Sinopharm Group Finance Company for the two years ended 31 December 2019 and six months ended 30 June 2020 with existing annual caps; and (ii) the proposed annual caps of the Deposit Services (the “**Deposit Cap(s)**”) for the three years ending 31 December 2023:

Historical transaction amounts	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020
	<i>(in RMB million)</i>	<i>(in RMB million)</i>	<i>(in RMB million)</i>
Maximum daily balance of the deposits placed with Sinopharm Group Finance Company	3,483	3,458	3,466 <i>(Note)</i>
Existing annual caps	3,500	3,500	3,500
Utilisation rate	99.5%	98.8%	99.0%

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The Deposit Caps	For the year ending 31 December 2021 <i>(in RMB million)</i>	For the year ending 31 December 2022 <i>(in RMB million)</i>	For the year ending 31 December 2023 <i>(in RMB million)</i>
Maximum daily balance of the deposits placed with Sinopharm Group Finance Company	5,000	5,000	5,000

Note: the figure was for the six months ended 30 June 2020

With reference to the Board Letter, the Deposit Caps were determined with reference to various factors, details of which were set out under the section headed “Basis of determination of the annual caps” of the Board Letter.

According to the above table, the existing Deposit Caps for the three years ending 31 December 2020 were almost fully utilised.

We noted from the 2020 Interim Report that as at 30 June 2020, (i) total amount of Group’s cash and cash equivalents amounted to RMB39.32 billion; and (ii) trade and bills receivables amounted to RMB156.11 billion. The sum of the aforesaid two items (the “**Sum**”) amounted to RMB195.43 billion as at 30 June 2020. The Sum (which is larger than the Deposit Caps) indicates the Group’s possible demand of deposit services to be provided by commercial banks and Sinopharm Group Finance Company.

The Deposit Caps of RMB5 billion represent an increase of RMB1.5 billion (the “**Increase**”) as compared to the existing annual caps of RMB3.5 billion. To further assess the fairness and reasonableness of the Increase, we further enquired the Directors and understood that the Increase was mainly due to the maximum estimated demand of Deposit Services by China National Scientific Instruments and Materials Co., Ltd. (CSIMC). We noted that the Company acquired 60% equity interests in CSIMC, the completion of which took place in October 2018. Upon the completion of acquisition for the 60% equity interest in CSIMC, CSIMC became a subsidiary of the Company. Thereafter, the transactions between CSIMC and Sinopharm Group Finance Company became continuing connected transactions.

Upon our further request, the Directors advised that CSIMC’s maximum daily balance of the deposits placed with Sinopharm Group Finance Company during the two years ended 31 December 2018 were approximately RMB1.43 billion and RMB1.43 billion respectively. Therefore, we consider the Increase to be acceptable.

As advised by the Directors, it is difficult to forecast the total cash level for whole period for the three years ending 31 December 2023. Nevertheless, should there be any substantial increase in total cash of the Group, the Group may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction to revise the Deposit Caps.

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Having considered the above factors, in particular,

- (i) that the Sum (which is larger than the Deposit Caps) indicates the Group's possible demand of deposit services to be provided by commercial banks and Sinopharm Group Finance Company;
- (ii) that the existing Deposit Caps of RMB3.5 billion for the three years ending 31 December 2020 were almost fully utilised; and
- (iii) as analysed above, the Increase to be acceptable,

we consider that the Deposit Caps, which are the same for the three years ending 31 December 2023 to be fair and reasonable.

Hong Kong Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values/maximum value of the Transactions must be restricted by the proposed annual caps for the period concerned under the relevant framework agreements; (ii) the terms of the Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of Transactions must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual caps.

In the event that the total amounts of the Transactions are anticipated to exceed the annual caps, or that there is any proposed material amendment to the terms of the Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Procurement Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board

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Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(i) Directors, Supervisors and the Chief Executive of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, Supervisors or the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements in the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Hong Kong Listing Rules.

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the total number of H Shares in issue (%)	Long position/ short position/ shares available for lending
Mr. Li Zhiming	H Shares	Beneficial owner	85,800	0.00	0.01	Long position
Mr. Yu Qingming	H Shares	Beneficial owner	100,000	0.00	0.01	Long position
Mr. Liu Yong	H Shares	Beneficial owner	69,300	0.00	0.01	Long position

Note: The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange (www.hkexnews.hk). The above mentioned “approximate percentage to the total number of shares of the Company” is calculated based on the number of total issued shares of the Company of 3,120,656,191 as at the Latest Practicable Date, and the term of “approximate percentage to the total number of H Shares in issue” is calculated based on the number of total issued H Shares of 1,341,810,740 as at the Latest Practicable Date.

(ii) Substantial Shareholders

As at the Latest Practicable Date, to the best knowledge of the Directors, the interests or short positions of the following persons (other than the Directors, Supervisors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position
CNPGC	Domestic Shares	Beneficial owner	207,289,498 <i>(Note 2)</i>	6.64	11.65	Long position
	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 2)</i>	50.36	88.35	Long position
Sinopharm Investment	Domestic Shares	Beneficial owner	1,571,555,953 <i>(Notes 1 and 2)</i>	50.36	88.35	Long position
Fosun Pharma	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 3)</i>	50.36	88.35	Long position
Fosun High Technology	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 4)</i>	50.36	88.35	Long position
Fosun Company	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 5)</i>	50.36	88.35	Long position
Fosun Holdings	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 6)</i>	50.36	88.35	Long position
Fosun International Holdings	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 7)</i>	50.36	88.35	Long position
Mr. Guo Guangchang	Domestic Shares	Interest of controlled corporation	1,571,555,953 <i>(Notes 1 and 8)</i>	50.36	88.35	Long position
Citigroup Inc.	H Shares	Interest of controlled corporation	5,812,009	0.19	0.43	Long position
			3,786,095	0.12	0.28	Short position
		Approved lending agent	86,521,061 <i>(Note 9)</i>	2.77	6.44	Long position
BlackRock, Inc.	H Shares	Interest of controlled corporation	80,073,802 <i>(Note 10)</i>	2.57	5.97	Long position
			113,600	0.00	0.01	Short position
JPMorgan Chase & Co.	H Shares	Interest of controlled corporation	23,189,157	0.74	1.73	Long position
			19,478,288	0.62	1.45	Short position
		Investment manager	174,000	0.01	0.01	Long position
		Person having security interest in shares	788,369	0.03	0.06	Long position
		Trustee	46,320	0.00	0.00	Long position
	Approved lending agent	44,973,901 <i>(Note 11)</i>	1.44	3.35	Long position	

Notes:

The information was disclosed based on the data available on the HKEXnews website of the Stock Exchange (www.hkexnews.hk).

- (1) Such 1,571,555,953 Domestic Shares belong to the same batch of shares.

- (2) CNPGC is interested in 1,571,555,953 Domestic Shares indirectly through Sinopharm Investment. As CNPGC owns 51% equity interest in Sinopharm Industrial Investment Co., Ltd. (“**Sinopharm Investment**”), it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO.
- (3) Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (“**Fosun Pharma**”) is the beneficial owner of 49% equity interest in Sinopharm Investment and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (4) Fosun High Technology (Group) Co., Ltd. (“**Fosun High Technology**”) is the beneficial owner of 38.54% equity interest in Fosun Pharma and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (5) Fosun International Ltd. (“**Fosun Company**”) is the beneficial owner of 100% equity interest in Fosun High Technology and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (6) Fosun Holdings Ltd. (“**Fosun Holdings**”) is the beneficial owner of 71.51% equity interest in Fosun Company and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (7) Fosun International Holdings Ltd. (“**Fosun International Holdings**”) is the beneficial owner of 100% equity interest in Fosun Holdings and, therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (8) Mr. Guo Guangchang is the beneficial owner of 85.29% equity interest in Fosun International Holdings and 0.004% equity interest in Fosun Pharma and, therefore, Mr. Guo Guangchang is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.
- (9) Citigroup Inc. is interested in an aggregate of long position of 92,333,070 H Shares (of which 86,521,061 H Shares are shares available for lending) and short position of 3,786,095 H Shares.
- (10) BlackRock, Inc. is interested in long position of 80,073,802 H Shares and short position of 113,600 H Shares indirectly through a series of controlled corporations.
- (11) JPMorgan Chase & Co. is interested in an aggregate of long position of 69,171,747 H Shares (of which 44,973,901 H Shares are shares available for lending) and short position of 19,478,288 H Shares.
- (12) The above mentioned “approximate percentage to the total number of shares of the Company” was calculated based on the number of total issued shares of the Company of 3,120,656,191 as at the Latest Practicable Date. In respect of H Shares, the term of “approximate percentage to the relevant class of shares” was calculated based on the number of total issued H Shares of 1,341,810,740 as at the Latest Practicable Date. In respect of Domestic Shares, the term of “approximate percentage to the relevant class of shares” was calculated based on number of total issued Domestic Shares of 1,778,845,451 as at the Latest Practicable Date.

Save as disclosed above, to the best knowledge of the Directors, as at the Latest Practicable Date, no person (other than the Directors, Supervisors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

3. MATERIAL ADVERSE CHANGES

As disclosed in the 2020 interim results announcement of the Company dated 21 August 2020, at the beginning of year 2020, the COVID-19 pandemic had a serious impact on the production and operation of the Group, and the growth of revenue and profit of each business segment declined to a certain extent. With the gains achieved by the government adopting various strict prevention and control policies, the daily diagnosis and treatment services of medical institutions in China have begun to resume. At the same time, the Group actively formulated a number of control measures to accelerate business development and business conditions continued to improve. The overall business performance of the Group in the second quarter of 2020 notably recovered from the trough in the first quarter.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up.

4. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors, Supervisors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS' AND SUPERVISORS' INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors or the Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up or were proposed to be acquired or disposed of by or leased to any member of the Group; and none of the Directors, Supervisors or their respective associates was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

6. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or the Supervisors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors and the Supervisors were in the employment of those companies which had interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of Director or Supervisor	Positions held in specific companies				
	CNPGC	Sinopharm Investment	Fosun Pharma	Fosun High Technology	Fosun Company
Mr. Li Zhiming		director, general manager			
Mr. Liu Yong		director			
Mr. Chen Qiyu		vice chairman	non-executive director	chairman	executive director, co-chief executive officer
Mr. Ma Ping	external director				
Mr. Hu Jianwei	deputy general manager (in charge of operation), general counsel				
Mr. Deng Jindong	deputy general manager	chairman			
Mr. Wen Deyong		director	senior vice president		
Ms. Guan Xiaohui		supervisor	executive president, chief financial officer		
Ms. Feng Rongli			vice president		
Mr. Wu Yifang			executive director, chairman, chief executive officer		
Ms. Li Xiaojuan	director of finance department	chief financial officer			

8. EXPERT'S QUALIFICATION AND CONSENT

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

The following is the qualification of Gram Capital who has given its opinions or advices which are contained in this circular:

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

9. EXPERT'S INTERESTS

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group since 31 December 2019, being the date to which the latest audited financial statements of the Group were made up, or was

proposed to be acquired, or disposed of by, or leased to any member of the Group, and was not beneficially interested in the shares of any member of the Group and did not 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.

10. MISCELLANEOUS

- (i) The registered office of the Company is located at the 6th Floor, No. 221 Fuzhou Road, Shanghai 200002, the PRC.
- (ii) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (iii) The joint company secretaries of the Company are Mr. Wu Yijian and Mr. Liu Wei.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 1601, Emperor Group Center, 288 Hennessy Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including Friday, 11 December 2020:

- (i) the letter from the Independent Board Committee, the text of which is set out on pages 26 to 27 of this circular;
- (ii) the letter from the Independent Financial Adviser, the text of which is set out on pages 28 to 44 of this circular;
- (iii) the written consent of the Independent Financial Adviser referred to under the paragraph headed "Expert's Qualification and Consent" in this Appendix;
- (iv) the 2020 Procurement Framework Agreement;
- (v) the 2020 Financial Services Framework Agreement; and
- (vi) this circular.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Sinopharm Group Co. Ltd. (the “**Company**”) will be held at 9:00 a.m. on Friday, 18 December 2020 at Meeting Room 1401, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, the People's Republic of China (the “**PRC**”), for the purpose of considering, and if thought fit, passing the following resolutions:

Ordinary Resolutions

1. “**THAT** the procurement framework agreement entered into by the Company and China National Pharmaceutical Group Co., Ltd. on 22 October 2020 (the “**2020 Procurement Framework Agreement**”) and the proposed annual caps for the continuing connected transactions contemplated thereunder, be and are hereby approved and confirmed; and **THAT** any one director of the Company be and is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he/she may consider necessary or desirable for the purpose of giving effect to the 2020 Procurement Framework Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”
2. “**THAT** the financial services framework agreement entered into by the Company and Sinopharm Group Finance Co., Ltd. on 22 October 2020 (the “**2020 Financial Services Framework Agreement**”) and the proposed annual caps for the deposit services contemplated thereunder, be and are hereby approved and confirmed; and **THAT** any one director of the Company be and is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such

* 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.”.

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actions as he/she may consider necessary or desirable for the purpose of giving effect to the 2020 Financial Services Framework Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

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

Shanghai, the PRC
27 November 2020

As at the date of this notice, 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. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung and Mr. Yu Weifeng.

Notes:

1. For the purpose of holding the EGM, the register of members of H shares of the Company is closed from Wednesday, 18 November 2020 to Friday, 18 December 2020 (both days inclusive), during which period no transfer of H shares of the Company will be registered.

Shareholders whose names appear on the register of members of the Company on Wednesday, 18 November 2020 are entitled to attend and vote at the EGM.

2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalves. A proxy need not be a member of the Company.
3. The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder is a legal person, that instrument must be executed either under its seal or under the hand of its director or other attorney duly authorised to sign the same.
4. In order to be valid, the proxy form must be deposited, for holders of H shares of the Company, to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or for holders of domestic shares, to the Board Office of the Company in the PRC not less than 24 hours before the time appointed for holding the EGM or any adjourned thereof. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude shareholders from attending and voting in person at the EGM or any adjourned meetings should they so wish.
5. Shareholders shall produce their identity documents and supporting documents in respect of the shares of the Company held when attending the EGM. If corporate shareholders appoint authorised representative to attend the EGM, the authorised representative shall produce his/her identity documents and a notarially certified copy of the

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relevant authorisation instrument signed by the board of directors or other authorised parties of the corporate shareholders or other notarially certified documents allowed by the Company. Proxies shall produce their identity documents and the proxy form signed by the shareholders or their attorney when attending the EGM.

6. The EGM is expected to take for less than half a day. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.
7. Contact details of the Board Office of the Company in the PRC are as follows:

Address: Room 1210, Sinopharm Group Building, No. 385, East Longhua Road, Huangpu District, Shanghai, 200023, the PRC

Telephone No.: (86 21) 2305 2147

Fax No.: (86 21) 2305 2146