
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents 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 and reply slip to the purchaser or 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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**SINOPHARM GROUP CO. LTD.*****國藥控股股份有限公司**

(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)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EGM****Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders****China Everbright Capital Limited**

A letter from the Board is set out on pages 4 to 12 of this circular. A notice convening the EGM to be held at Meeting Room 1813, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, the PRC at 10:00 a.m. on Monday, 29 December 2014, is being dispatched to the Shareholders together with this circular.

If you intend to attend the EGM, please complete and return the appropriate reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than Monday, 8 December 2014.

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 that attorney to sign, or other document of authorization, must be notarially 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, Hong Kong as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. 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 1603, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. 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.

13 November 2014

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DEFINITIONS

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

“Associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	means the board of directors of the Company
“CBRC”	means China Banking Regulatory Commission
“CNPGC”	means China National Pharmaceutical Group Corporation (中國醫藥集團總公司), 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)
“Company”	means Sinopharm Group Co. Ltd. (國藥控股股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, 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
“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 1813, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, the PRC at 10:00 a.m. on Monday, 29 December 2014
“Group”	means the Company and its subsidiaries

DEFINITIONS

“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
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“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 renewed Master Procurement Agreement, namely Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Lyu Chang Jiang, Mr. Tan Wee Seng and Mr. Liu Zheng Dong
“Independent Financial Advisor” or “China Everbright Capital Limited”	means China Everbright Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder
“Independent Shareholders”	means Shareholders other than CNPGC and its associates
“Latest Practicable Date”	means 7 November 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Master Procurement Agreement”	means the master pharmaceutical products, personal-care supplies and medical equipment procurement agreement entered into between the Company and CNPGC on 11 November 2011 and renewed by the parties on 7 November 2014, which is still subject to the approval by the Independent Shareholders
“PBOC”	means the People’s Bank of China

DEFINITIONS

“PRC”	means the People’s Republic of China which, for the purpose of this circular (unless otherwise indicated), excludes Hong Kong, the Macau Special Administrative Region and Taiwan Region
“RMB”	means Renminbi, the lawful currency of the PRC
“Shareholder(s)”	means the shareholder(s) of the Company
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

LETTER FORM THE BOARD



SINOPHARM GROUP CO. LTD.*
國藥控股股份有限公司

(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. Wei Yulin
Mr. Li Zhiming

Non-executive Directors:

Mr. Chen Qiyu
Mr. She Lulin
Mr. Wang Qunbin
Mr. Li Yuhua
Mr. Zhou Bin
Mr. Deng Jindong
Mr. Li Dongjiu
Mr. Liu Hailiang

Independent non-executive Directors:

Ms. Li Ling
Mr. Yu Tze Shan Hailson
Mr. Lyu Changjiang
Mr. Tan Wee Seng
Mr. Liu Zhengdong

Registered office in the PRC:

6th Floor
No. 221 Fuzhou Road
Shanghai 200002
China

*Principal place of business
in Hong Kong:*

Unit B2-A, 20/F
Far East Finance Centre
16 Harcourt Road, Admiralty
Hong Kong

13 November 2014

To the Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EGM**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 7 November 2014 in relation to the renewal of certain continuing connected transactions of the Company.

LETTER FORM THE BOARD

On 7 November 2014, the Company and CNPGC renewed a series of continuing connected transactions between them including the Master Procurement Agreement, and set the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2017. Pursuant to the Hong Kong Listing Rules, the renewed Master Procurement Agreement as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are still 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 renewal of the Master Procurement Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2017; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

II. RENEWAL OF THE MASTER PROCUREMENT AGREEMENT BETWEEN THE COMPANY AND CNPGC

As the term of the Master Procurement Agreement will expire on 31 December 2014, the Company and CNPGC renewed such agreement on 7 November 2014 for a further term of three years from 1 January 2015 to 31 December 2017, subject to the approval by the Independent Shareholders at the general meeting of the Company.

1. Renewed Master Procurement Agreement

Details of the renewed Master Procurement Agreement are as follows:

Date:	7 November 2014
Parties:	(i) the Company (ii) the CNPGC
Term of the Agreement	Subject to the approval by the Independent Shareholders, the renewed Master Procurement Agreement shall be effective from 1 January 2015 to 31 December 2017.
Major Terms and Conditions	<ul style="list-style-type: none">Pursuant to the renewed Master Procurement Agreement, the Group has agreed to purchase pharmaceutical products, personal-care supplies and medical equipment from the CNPGC Group; and the CNPGC Group has agreed to sell such products to the Group.

LETTER FORM THE BOARD

Pricing Policy

- The Group will procure relevant products from the CNPGC Group on a voluntary and non-compulsory basis and is entitled to procure the same from any other third parties.
- Upon expiry, the renewed Master Procurement Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and agreement of the parties, be renewed for a further term of three years.
- The price of pharmaceutical products, personal-care supplies and medical equipment procured by the Group from the CNPGC Group under the renewed Master Procurement Agreement will be offered by members of the CNPGC Group based on the bidding price of the relevant products, which is won by relevant member of the CNPGC Group through its participation in the public bidding process of such products conducted by the tender office of Chinese government or hospitals, deducting the gross profit of distributors at each level.
- Relevant members of the CNPGC Group will, on a regular basis, provide the Company and its subsidiaries with the procurement price list of all types of the above-mentioned products for distributors at each level. The company and/or its subsidiaries, after considering comprehensively a lot of factors relating to the specific product, including but not limited to the price, quality, credit period, delivery method, after-sales service, gross profit margin and average price in the industry, and going through all necessary internal review and approval procedures covering the president and various departments including procurement department, finance department, operation department and quality department of the company and/or its subsidiaries, will determine whether to accept the procurement price of specific product as offered by members of the 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 as a whole, or is not fair and reasonable, they will make the decision not to procure such products from the CNPGC Group.

LETTER FORM THE BOARD

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.

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 renewed Master Procurement Agreement and shall not contravene the provisions of the renewed Master Procurement Agreement.

2. Proposed Annual Caps for the Three Years Ending 31 December 2017

Historical figures

Historical transaction amount between the Group and the CNPGC Group under the Master Procurement Agreement as follows:

	Year ended 31 December 2012 <i>(RMB)</i>	Year ended 31 December 2013 <i>(RMB)</i>	Nine months ended 30 September 2014 <i>(RMB)</i>
Transactions			
Amount paid by the Group to the CNPGC Group under the Master Procurement Agreement	2,475,000,000	2,082,000,000	2,094,000,000

Estimation of the annual caps for the three years ending 31 December 2017

The Directors expect the annual caps for the continuing connected transactions contemplated under the renewed Master Procurement Agreements for the three years ending 31 December 2017 as follows:

	Year ending 31 December 2015 <i>(RMB)</i>	Year ending 31 December 2016 <i>(RMB)</i>	Year ending 31 December 2017 <i>(RMB)</i>
Transactions			
Transaction amount between the Group and the CNPGC Group under the renewed Master Procurement Agreement	6,000,000,000	8,000,000,000	10,000,000,000

LETTER FORM THE BOARD

Basis of determination of the annual caps

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

- (i) the estimated growth in the prices of the pharmaceutical products, personal-care supplies and medical equipment during the three years ending 31 December 2017;
- (ii) the estimated increase in the amount of the Group's procurement of the pharmaceutical products, personal-care supplies and medical equipment from the CNPGC Group during the three years ending 31 December 2017 due to (a) the expansion of the business of the Group through a series of merger and acquisitions made by the Group in the year of 2013 and 2014 including the acquisitions of China National Pharmaceutical Group Shanxi Co., Ltd. and Sichuan Medicine Group Co., Ltd. as previously disclosed by the Company, as well as any such activities which may occur in the next three years; (b) the expected rapid increase in the number of retail drugstores operated by the Group in line with the Group's strategic emphasis on the development of retail business; (c) the continuous expansion of the Group's distribution network in prefecture as well as basic level cities/counties/towns markets; and (d) the expected increase in the number of customers and their demand for the pharmaceutical products, personal-care supplies and medical equipment as a result of the aforesaid reasons;
- (iii) the expected development of the industry brought about the further promoted and strengthened reforms of Chinese pharmaceutical and healthcare system by Chinese government; and
- (iv) the inclusion of a buffer for the estimated amount of procurement of the pharmaceutical products, personal-care supplies and medical equipment by the Group from the CNPGC Group under the renewed Master Procurement Agreement so as to accommodate any unexpected increase in the aforesaid transaction volume amount (as a result of any unexpected increase in market demand) or unexpected increase in the cost of supply during the period of the renewed Master Procurement Agreement.

LETTER FROM THE BOARD

3. Reasons for and benefit of the renewal of the Master Procurement 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 renewed Master Procurement Agreement.

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

III. MEASURES OF INTERNAL CONTROL

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. Such internal control policies are conducted and supervised by the financial department, the audit department and the quality department of the Company, who are responsible for (i) collecting detailed information of continuing connected transactions (including but not limited to the pricing terms, payment arrangements and actual transaction amount under each of the individual implementation agreements) 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 framework agreement in respect of the continuing connected transactions; (iii) conducting evaluation on the fairness of the transaction terms and the pricing terms; and (iv) reporting relevant information to the Board in a timely manner.

The independent non-executive Directors of the Company have reviewed and would continue to review the non-exempt continuing connected transactions to ensure such agreements are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditors of the Company would also conduct an annual review on the pricing terms and annual caps of such non-exempt continuing connected transactions.

IV. HONG KONG LISTING RULES IMPLICATIONS

CNPGC is the ultimate controlling shareholder of the Company, which directly and indirectly holds 42.21% equity interest in the Company. Therefore, CNPGC is a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the renewed Master Procurement 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 the continuing connected transactions contemplated under the renewed Master Procurement Agreement exceed 5%, the transactions contemplated thereunder are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

LETTER FORM THE BOARD

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders on the renewed Master Procurement Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder, and an independent financial advisor has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The following Directors, being Mr. She Lulin, Mr. Li Yuhua, Mr. Zhou Bin and Mr. Deng Jindong, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interest in the transactions contemplated under the renewed Master Procurement Agreement, and thus have abstained from voting on the relevant resolution 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 resolution at the Board meeting.

V. INFORMATION ON PARTIES TO THE CONTINUING CONNECTED TRANSACTIONS

The Company

The Company is principally engaged in the distribution of pharmaceutical and healthcare products, operation of retail pharmacies and chemical reagents manufacturing.

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 wholesale of pharmaceutical products and biological products, etc.

VI. EGM

A notice convening the EGM to be held at Meeting Room 1813, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, the PRC at 10:00 a.m. on Monday, 29 December 2014 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 resolution to be proposed at the EGM in relation to the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder.

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, Shareholder or their respective associate has a material interest in the transactions contemplated under the renewed Master Procurement Agreement and is required to abstain from voting on the relevant resolution to be proposed at the EGM.

A reply slip and a proxy form to be used at the EGM are also enclosed herein and published on the website of the Hong Kong Stock Exchange (www.hkex.com.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.

LETTER FROM THE BOARD

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, Hong Kong, not less than 24 hours before the time for holding the EGM 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 that power of attorney or other authority, must be delivered to the Board Office of the Company in the PRC at Room 1603, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, not less than 24 hours before the time for holding the EGM in order for such documents to be valid.

Holders of H Shares and Domestic Shares, who intend to attend the EGM must complete the reply slip and return it to the Board Office of the Company not later than 20 days before the date of the EGM, i.e. no later than Monday, 8 December 2014.

Pursuant to the Articles of Association, for the purpose of holding the EGM, the register of members of H Shares will be closed from Saturday, 29 November 2014 to Monday, 29 December 2014 (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 Friday, 28 November 2014 are entitled to attend and vote at the EGM.

In order to attend the EGM, holders of H Shares shall lodge all transfer documents together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 28 November 2014.

VII. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder; and (ii) the letter from the Independent Financial Advisor set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the renewed Master Procurement Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder, as well as the principal factors and reasons taken into account by the Independent Financial Advisor at its advice.

The Directors (excluding the independent non-executive Directors) are of the view that the renewed Master Procurement Agreement was 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 thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FORM THE BOARD

Accordingly, the Directors (excluding the independent non-executive Directors) recommend the Independent Shareholders to vote in favor of the relevant resolution to be proposed at the EGM.

Yours faithfully,
By Order of the Board of
Sinopharm Group Co. Ltd.
Wei Yulin
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



SINOPHARM GROUP CO. LTD.* **國藥控股股份有限公司**

(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)

13 November 2014

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 13 November 2014 (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, the terms of the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder (details of which are set out in the letter from the Board) are fair and reasonable so far as the Independent Shareholders are concerned.

China Everbright Capital Limited has been appointed by the Board as the Independent Financial Advisor to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of the terms and conditions of the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder. 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 on pages 15 to 28 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 12 of the Circular and the additional information set out in the Appendix.

Having considered the terms and conditions of the renewed Master Procurement Agreement as well as the proposed annual caps for the continuing connected transactions contemplated thereunder, the interests of the Independent Shareholders and the advice of the Independent Financial Advisor, we are of the opinion that the renewed Master Procurement Agreement was entered into in the ordinary and usual course of business of the Group and on

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM so as to approve the renewed Master Procurement Agreement as well as the proposed annual caps for the continuing connected transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee of

SINOPHARM GROUP CO. LTD.

Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Lyu Chang Jiang,

Mr. Tan Wee Seng and Mr. Liu Zheng Dong

Independent Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The following is the full text of a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in relation to the renewed Master Procurement Agreement prepared for the purpose of inclusion in this circular.



13 November 2014

To the Independent Board Committee and the Independent Shareholders of Sinopharm Group Co. Ltd.:

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS – MASTER PROCUREMENT AGREEMENT

I. INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the renewed Master Procurement Agreement (“**Renewed Master Procurement Agreement**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”) dated 13 November 2014 issued by the Company, 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.

At the extraordinary general meeting of the Company on 30 November 2011, the then Independent Shareholders approved existing Master Procurement Agreement (“**Existing Master Procurement Agreement**”), including the existing annual caps (“**Existing Annual Caps**”), for the three financial years ending 31 December 2014.

In view of the expiry of the Existing Master Procurement Agreement on 31 December 2014, the Renewed Master Procurement Agreement for a further term expiring on 31 December 2017, which will be put forward for approval by the Independent Shareholders at the EGM, were signed on 7 November 2014 in order to govern the conduct of the continuing connected transactions (“**Continuing Connected Transactions**”) contemplated under the Renewed Master Procurement Agreement for the three years ending 31 December 2017.

CNPGC is a state wholly-owned enterprise established in the PRC and is the holding company of Sinopharm Industrial Investment Co., Ltd., which is the controlling shareholder of the Company. As a result, CNPGC is a connected person of the Company under the Hong Kong Listing Rules. As one or more of the applicable percentage ratios in respect of the aggregate annual caps for the continuing connected transactions contemplated under the Renewed Master

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

Procurement Agreement exceed 5%, both the entering into of such agreements and the proposed annual caps (the “**Annual Caps**”) for the continuing connected transactions contemplated thereunder are subject to independent shareholders’ approval requirement in addition to the reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee, comprising all of the five independent non-executive Directors, has been formed to consider whether (i) the terms of the Renewed Master Procurement Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) the transactions under the Renewed Master Procurement Agreement, including the Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole, and to make recommendations to the Independent Shareholders in respect thereof. We, China Everbright Capital Limited (a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO), have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees and benefits from the Group, CNPGC or any of their respective associates. In the last two years, there was no engagement between the Group and China Everbright Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) China Everbright Capital Limited and (b) the Group and CNPGC that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Hong Kong Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions as detailed in the Circular.

BASIS OF OUR OPINION

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the management (“**Management**”) of the Company and have assumed that such information, facts and opinions are true and accurate. We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. However, we have not conducted any independent investigation into the business, operations or financial condition of the Group. We have assumed that all statements and representations made or referred to in the Circular were accurate at the time when they were made and are true at the date of the Circular.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In formulating our view on the transactions contemplated under the Renewed Master Procurement Agreement and the Annual Caps, we have taken into consideration the principal factors and reasons as set out below. In reaching our conclusion, we have considered the results of the analysis in light of each other and ultimately reached our opinion based on the results of all analysis taken as a whole.

(A) Background of and reasons for the Continuing Connected Transactions

The Group is mainly engaged in pharmaceutical distribution business. Leveraging on its nationwide distribution and delivery network, the Group provides comprehensive distribution, logistics and other value-added services to domestic and foreign manufacturer and suppliers of pharmaceutical products, medical equipment and supplies and other healthcare products, and also to downstream customers including hospitals, other distributors, retail drug stores and primary health services institutions.

As at 30 June 2014, the distribution network under the Group covered 31 provinces, municipalities and autonomous regions across China. The Group's direct customers included 12,142 hospitals (only referring to nationally-ranked hospitals, including 1,668 largest class-three hospitals with the highest rankings), 92,789 small end-customers (including primary health services institutions and others), 59,665 retail outlets and 7,370 other customers (such as pharmaceutical distributors). In respect of retail pharmacy, aiming to establish an integrated wholesale-retail distribution model, the Group has set up a network of retail chain pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 30 June 2014, the number of retail pharmacies was 1,944 (only referring to those owned by Sinopharm Holding Guoda Drug Store Co., Ltd.), among which 1,651 were directly operated by the Group and 293 were operated by franchisees.

According to the Company's 2014 interim result report ("**2014 Interim Report**"), the Group's revenue from pharmaceutical distribution was RMB90,580.63 million, representing an increase of 18.72% as compared with RMB76,294.78 million for the six months ended 30 June 2013, and accounting for 94.79% of the total revenue of the Group. Such increase was primarily due to the good performance of the pharmaceutical distribution business and further expansion of the distribution network of the Group.

As advised by the Management, during its normal and ordinary course of business, the Group procures pharmaceutical and healthcare products, as well as personal care products and medical supplies, from its suppliers, including the CNPGC Group, from time to time.

As stated in the Letter from the Board, the CNPGC Group is the largest pharmaceutical group in the PRC with outstanding competency in pharmaceutical industry and has developed good experience and service systems in respect of the products and services under the Renewed Master Procurement Agreement.

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Therefore, the Company and CNPGC entered into the Existing Master Procurement Agreement on 11 September 2011, pursuant to which the Group has procured pharmaceutical products, personal-care supplies and medical equipment from the CNPGC Group, subject to the annual caps and the terms of the Existing Master Procurement Agreement, which will expire on 31 December 2014. The Management expects the Continuing Connected Transactions will continue after 31 December 2014. In compliance with the continuing connected transaction requirements under the Hong Kong Listing Rules, the Directors propose to seek Independent Shareholders' approval to renew the Continuing Connected Transactions for a term up to 31 December 2017.

Having considered that the Continuing Connected Transactions enable (i) the Group to secure a stable source of the relevant products, supplies and equipment from the CNPGC Group, thereby avoiding unnecessary disruption to the Company's operations; and (ii) the Group to fully leverage on advantages of the CNPGC Group to achieve better operating performance, the Management is of the view that entering into the Renewed Master Procurement Agreement is in the ordinary and usual course of business of the Company, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having taken into account of the above, and (i) principal businesses of each of the Group and the CNPGC Group; and (ii) the nature of the transactions contemplated under the Renewed Master Procurement Agreement, we concur with the Directors' view that the entering into the Renewed Master Procurement Agreement falls within the ordinary and usual course of business of the Group, and is in the interests of the Company and the Shareholders as a whole.

(B) Principal terms of the Renewed Master Procurement Agreement

Pursuant to the Renewed Master Procurement Agreement, the Group, subject to the Annual Caps, has agreed to procure pharmaceutical products, personal-care supplies and medical equipment from the CNPGC Group for a term of three years ending 31 December 2017. The Group and the CNPGC Group will enter into separate implementation agreements to specify terms and conditions in respect of the procurement of related products and services thereunder.

There is no provision in the Renewed Master Procurement Agreement requiring the Group to transact with the CNPGC Group exclusively. In other words, 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, and it does not restrict the Group from transacting with any other suppliers. Therefore, we consider the Renewed Master Procurement Agreement provides commercial flexibility to the Group to transact with other suppliers in the event that the Group might not be able to agree with any terms or pricing with the CNPGC Group.

As disclosed in the Letter from the Board, the price of pharmaceutical products, personal-care supplies or medical equipment procured by the Group from CNPGC Group under the renewed Master Procurement Agreement will be offered by members of the CNPGC Group based on the bidding price of the relevant products, which is won by relevant member of the

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CNPGC Group through its participation in the public bidding process of such products conducted by the tender office of Chinese government or hospitals, deducting the gross profit of distributors at each level. Relevant members of CNPGC Group will on a regular basis, provide the Company and its subsidiaries with the procurement price list of all types of the above-mentioned products for distributors at each level. The company and/or its subsidiaries, after considering comprehensively a lot of factors relating to the specific product, including but not limited to the price, quality, payment days, delivery method, after-sales service, gross profit and average price in the industry and going through all necessary internal review and approval procedures covering the president and various departments including procurement department, finance department, operation department and quality department of the company and/or its subsidiaries, will determine whether to accept the procurement price of specific product as offered by members of 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 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 CNPGC Group.

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. 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 renewed Master Procurement Agreement and shall not contravene the provisions of the renewed Master Procurement Agreement.

We have obtained from the Company and reviewed certain set of sales contracts entered into between CNPGC Group and (i) the Company; or (ii) independent third parties, which were gathered randomly during the first nine months of 2014. Based on the contracts reviewed by us, we noted that the price charged by and payment terms offered by the CNPGC Group to the Group were no less favourable when compared with the price and payment terms offered by CNPGC Group to the relevant independent third parties.

As stated in the Letter from the Board, we were advised that to ensure the Company's conformity with the above pricing policies from time to time, the Company would adopt a series of internal control policies for its daily operation. Such internal control policies would be conducted and supervised by the finance department, internal audit department and quality control department of the Company, who is responsible for (i) collecting detailed information of continuing connected transactions (including but not limited to the pricing terms, payment arrangements and actual transaction amount under each of the individual implementation agreements) 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 framework agreement in respect of the continuing connected transactions; (iii) conducting evaluation on the fairness of the transaction terms and the pricing terms; and (iv) reporting relevant information to the Board in a timely manner.

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The independent non-executive Directors of the Company have reviewed and would continue to review the non-exempt continuing connected transactions to ensure such agreements are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditors of the Company would also conduct an annual review on the pricing terms and annual caps of such non-exempt continuing connected transactions.

Having considered that (i) the transactions contemplated under the Renewed Master Procurement Agreement have been carried out by the Group in its ordinary and usual course of business; (ii) the terms of the Renewed Master Procurement Agreement are normal commercial terms; and (iii) the measures in place to ensure the Company's conformity with the procurement policies from time to time, we are of the view that the terms of the Renewed Master Procurement Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(C) Review of the Continuing Connected Transaction by the auditors

The auditors of the Company have performed a review of the Continuing Connected Transactions for the three financial years ended 31 December 2013 (the "**Past Transactions**"). We noted from the 2011, 2012 and 2013 annual reports of the Company ("**Annual Reports**") and understood from the Management that the auditors confirmed that the Past Transactions (a) had received the approval of the Board; (b) were, in all material respects, in accordance with the pricing policies of the Group; (c) had been entered into, in all material respects, in accordance with terms of the relevant agreements governing them; and (d) had not exceeded the relevant annual caps. Accordingly, we consider that the Group has established a good track record on compliance matters in relation to the Continuing Connected Transactions.

Given the above and (i) the independent non-executive Directors will continue to, pursuant to Rule 14A.55 of the Hong Kong Listing Rules, review, among other things, whether the transactions contemplated under the Renewed Master Procurement Agreement are conducted on normal and commercial terms; and (ii) the auditor of the Company will continue to, review transactions contemplated under the Renewed Master Procurement Agreement in accordance with Rule 14A.56 of the Hong Kong Listing Rule, we are of the view that adequate measures have been put in place, as required under the Hong Kong Listing Rules mentioned above, to monitor the transactions contemplated under the Renewed Master Procurement Agreement in order to protect the interests of the Company and the Independent Shareholders.

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(D) The Annual Caps

The Continuing Connected Transactions are subject to the Hong Kong Listing Rules' requirements and conditions as discussed in detail under the section headed "Reporting requirements and conditions of the Continuing Connected Transactions" below. In particular, the Continuing Connected Transactions are subject to the Annual Caps.

Review of historical figures

The table below sets out (i) the historical transaction amounts of the Existing Master Procurement Agreement for each of the two years ended 31 December 2013 and the nine months ended 30 September 2014 ("**Relevant Period**") and (ii) the Existing Annual Caps:

Historical transaction amounts during the Relevant Period

	Year ended 31 December		Nine months ended
	2012	2013	30 September
	(RMB'000)	(RMB'000)	2014
			(RMB'000)
Actual amount paid by the Group to the CNPGC Group under the Existing Master Procurement Agreement	2,475,000	2,082,000	2,094,000

The Existing Annual Caps

	Year ended/ending 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Maximum amount payable by the Group to the CNPGC Group under the Existing Master Procurement Agreement	5,200,000	6,760,000	8,788,000

We noted that the actual historical transaction amounts under the Existing Master Procurement Agreement were substantially lower than the Existing Annual Caps during the Relevant Period. After discussion with the Management, we were informed that such differences were mainly attributable to:

1. CNPGC Group disposed its equity interest in Xian Janssen Pharmaceutical Ltd. (西安楊森製藥有限公司) ("**Xian Janssen**") in 2012. Upon the disposal, Xian Janssen was not longer the associate of CNPGC Group, and therefore, the

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Group's procurement from Xian Janssen have not been treated as connected transaction of the Group since 2012. As informed by the Management, the historical procurement of the Group from Xian Janssen amounted to approximately RMB968 million in 2012, representing approximately 39% of total procurement amount from CNPGC Group in 2012; and

2. In 2013, CNPGC Group acquired Guizhou Tongjitang Pharmaceutical Co. Ltd. (貴州同濟堂製藥有限公司) and Anhui Jingfang Pharmaceutical Co. Ltd. (安徽精方藥業股份有限公司). Upon the completion of the above acquisitions, it has further expanded the product portfolio and strengthened the presence of the CNPGC Group in different regions of the PRC. During the year ended 31 December 2013 and the nine months ended 30 September 2014, the Group's total procurement from these two companies amounted to approximately RMB99.2 million and approximately RMB155.9 million, respectively.

Based on the actual transaction amounts during the nine months ended 30 September 2014, the Management estimates that the annual transaction amounts in 2014 (the "Estimated 2014 Procurement Amounts") will be approximately RMB2.8 billion, which represent approximately 32% of the relevant annual caps in 2014. Given the low utilization rate of Existing Annual Caps during the Relevant Period, the Management adjusted the Annual Caps downward as below:

The Annual Caps

	Year ending 31 December		
	2015	2016	2017
	(RMB'000)	(RMB'000)	(RMB'000)
Maximum amount payable by the Group to the CNPGC Group under the Renewed Master Procurement Agreement	6,000,000	8,000,000	10,000,000

Assessment of the Annual Caps

As stated in the Letter from the Board, the Annual Caps was estimated by the Management with reference to the following factors:

- (i) the estimated growth in the prices of the pharmaceutical products, personal-care supplies and medical equipment during the three years ending 31 December 2017;
- (ii) the estimated increase in the amount of the Group's procurement of the pharmaceutical products, personal-care supplies and medical equipment from CNPGC Group during the three years ending 31 December 2017 due to (a) the

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expansion of the business of the Group through a series of merger and acquisitions made by the Group in the year of 2013 and 2014 including the acquisitions of China National Pharmaceutical Group Shanxi Co., Ltd. and Sichuan Medicine Group as previously disclosed by the Company, as well as any such activities which may occur in the next three years; (b) the expected rapid increase in the number of retail drugstores operated by the Group in line with the Group's strategic emphasis on the development of retail business; (c) the continuous expansion of the Group's distribution network in prefecture as well as basic level cities/counties/towns markets; and (d) the expected increase in the number of customers and their demand for the pharmaceutical products, personal-care supplies and medical equipment as a result of the aforesaid reasons;

- (iii) the expected development of the industry brought about the further promoted and strengthened reforms of Chinese pharmaceutical and healthcare system by Chinese government; and
- (iv) the inclusion of a buffer for the estimated amount of procurement of the pharmaceutical products, personal-care supplies and medical equipment by the Group from the CNPGC Group under the renewed Master Procurement Agreement so as to accommodate any unexpected increase in the aforesaid transaction volume amount (as a result of any unexpected increase in market demand) or unexpected increase in the cost of supply during the period of the renewed Master Procurement Agreement.

In assessing the reasonableness of the Annual Caps, we have reviewed and discussed with the Management the bases and assumptions underlying the projections of the Annual Caps. Based on our review and discussion, we understand from the Management that the Company has taken the following factors into account in determining the Annual Caps:

The growth of historical transaction amounts under the Existing Master Procurement Agreement

Excluding the procurement by the Group to Xian Janssen in 2012, the historical total purchase by the Group from the CNPGC Group increased by approximately 38% from approximately RMB1,507 million in 2012 to approximately RMB2,082 million in 2013. The Management expects that the total annual purchase from the CNPGC Group in 2014 will be approximately RMB2,800 million, representing a growth of approximately 34% over 2013.

As advised by the Management, the sustainable growth in the Group's purchase from the CNPGC Group during the past few years mainly reflected the growth of the Group's total revenue which was primarily due to (i) increase in types and amount of products sold by existing customers and number of new customers of the Group; (ii) expansion of distribution network of the Group through acquisition of the leading companies in the PRC and in their respective regional markets and establishment of new companies and businesses; and (iii) extension of the Group's distribution network coverage to community clinics and other medical institutions.

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The expected growth of the Group's business driven by its organic growth and potential acquisitions

As stated in the Company's 2014 interim report, as at 30 June 2014, the distribution network under the Group covered 31 provinces, municipalities and autonomous regions across China. The Group's direct customers included 12,142 hospitals (only referring to nationally-ranked hospitals, including 1,668 largest class-three hospitals with the highest rankings), 92,789 small end-customers (including primary health services institutions and others), 59,665 retail outlets and 7,370 other customers (such as pharmaceutical distributors). In respect of retail pharmacy, aiming to establish an integrated wholesale-retail distribution model, the Group has set up a network of retail chain pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 30 June 2014, the number of retail pharmacies was 1,944 (only referring to those owned by Sinopharm Holding Guoda Drug Store Co., Ltd.), among which 1,651 were directly operated by the Group and 293 were operated by franchisees.

As advised by the Management, the coverage of the Group's distribution network will continue expand from 197 municipalities/cities as at the end of 2013 to approximately 246 municipalities/cities at the end of 2015. Due to the continuous expansion of the Group's coverage of its pharmacy distribution network over the next three years, it will increase the demand for pharmacy procurement from CNPGC Group.

In addition to the organic growth of the Group's existing business, the Group has acquired around 20 pharmaceutical sales and distribution companies during the past few years, among which, China National Pharmaceutical Group Shanxi Co., Ltd. (國藥集團山西有限公司), Sinopharm Lingshang Hospital Management Services (Shanghai) Co., Ltd. (國藥控股菱商醫院管理服務(上海)有限公司), Sinopharm Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. (國藥集團三益(蕪湖)有限公司), Sinopharm Bio-pharmaceutical Co., Ltd. (國藥控股上海生物醫藥有限公司) and Sichuan Pharmaceutical Group Co., Ltd. of CNPGC (國藥四川醫藥集團有限公司) have procured pharmaceutical products, personal-care supplies and medical equipment from the CNPGC Group in 2013 and the first nine months of 2014. The Management expects that other pharmaceutical sales and distribution companies acquired by the Group during the past few years will start to procure pharmaceutical products, personal-care supplies and medical equipment from the CNPGC Group over next few years during its normal course of business. As advised by the Management, the Group will continue to acquire other pharmaceutical sales and distribution companies in order to further strengthen its presence in different regions of the PRC over the next few years. As a result, it is expected that the Group's total procurement volume of pharmaceutical products will continue to grow continuously.

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The expected growth of the CNPGC Group's business driven by its organic growth and potential acquisitions

As advised by the Management, CNPGC Group's has further expanded the product portfolio and strengthened the presence of the CNPGC Group in different regions of the PRC. For example, in 2013, CNPGC Group acquired Guizhou Tongjitang Pharmaceutical Co. Ltd. (貴州同濟堂製藥有限公司) and Anhui Jingfang Pharmaceutical Co. Ltd. (安徽精方藥業股份有限公司). During the year ended 31 December 2013 and the nine months ended 30 September 2014, the Group's total procurement from these two companies amounted to approximately RMB99.2 million and approximately RMB155.9 million, respectively. As advised by the Management, around 12 pharmaceutical and healthcare companies were acquired by the CNPGC Group during the past few years and it may continue to acquire other pharmaceutical companies in order to further expand its product portfolio and strengthened its presence in different regions of the PRC over the next few years.

Benefited from the continuous business expansion of the Group and the CNPGC Group, the Management expects that it will further increase the Group's purchase of pharmaceutical products, personal-care supplies and medical equipment from the CNPGC Group during the three years ending 31 December 2017.

Outlook of the PRC pharmaceutical market

According to the China Southern Medicine Economy Research Institution of China Food and Drug Administration ("NFS") (國家食品藥品監督管理總局南方醫藥經濟研究所), an independent research institute affiliated with the China Food and Drug Administration (中國國家食品藥物監督管理局), the total sales of the pharmaceutical products, which includes sales of pharmaceutical products from hospitals, clinics, health centers and retail pharmacies to consumers, increased from RMB458.5 billion in 2008 to RMB1,098.5 billion in 2013, representing a CAGR of 19.1%. Further, the total sales of pharmaceutical products are expected to grow at a CAGR of 14.6% from 2013 to 2016 and reach RMB1,653.4 billion in 2016. In addition, per capita spending on medicine in the PRC increased from RMB345 in 2008 to RMB807 in 2013, representing a CAGR of 18.5%. According to NFS, per capita spending on medicine in the PRC is expected to grow at a CAGR of approximately 13.8% from 2013 to 2016. According to NFS, the total sales from distributors to hospitals, healthcare centers, clinics, retail pharmacies in the PRC grew from RMB340.4 billion in 2008 to RMB890.6 billion in 2012, representing a CAGR of 27.2%. According to NFS, the pharmaceutical distribution industry in the PRC is expected to reach RMB1,870.7 billion in 2016.

The ongoing healthcare reform led by PRC government aims to build a nationwide insurance system to provide substantially all of the PRC's population with affordable medical services. At present, such system consists of three types of essential medical insurance: (i) the Urban Employee Basic Medical Insurance Scheme which is a mandatory health insurance program for urban employees and retirees; (ii) the Urban Resident Basic

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Medical Insurance Scheme, which is a voluntary program for other urban residents; and (iii) the New Rural Cooperative Medical Scheme or NRCMS, which is a voluntary program for all rural residents. According to 2012 China Health Statistics Yearbook, the two urban insurance schemes covered 536 million urban residents, accounting for approximately 75.3% of the total registered urban population as of the end of 2012. In the meantime, the NRCMS covered approximately 805 million rural residents, accounting for approximately 98.3% of the total registered rural population. For certain illnesses that require expensive medical procedures, a supplemental medical reimbursement system is in place, which provides a minimum of 50% reimbursement in addition to the basic medical insurance coverage. It is expected that the continuous development of nationwide insurance system in the PRC will support the sustainable development of the PRC pharmaceutical market.

Having considered (i) the Annual Caps could reasonably capture the Group's original procurement needs as reflected by the historical transaction amount under the Existing Master Procurement Agreement; (ii) the expected increment in procurement volume under the Renewed Master Procurement Agreement due to the new procurement needs of the Group, the analysis of which is set out above; and (iii) the expected steady demand in pharmaceutical products, personal-care supplies and medical equipment given the positive outlook of the PRC Pharmaceutical market, we are of the view that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

However, as the Annual Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 31 December 2017, we express no opinion as to how closely the actual volume of purchase pursuant to the Renewed Master Procurement Agreement shall correspond to the Annual Caps.

(E) Reporting requirements and conditions of the Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive directors must review the Non-exempt continuing connected transactions and confirm in the annual report and accounts that the continuing connected transactions have been entered into:
 - in the ordinary and usual course of business of the listed issuer's group;
 - on normal commercial terms or better; and
 - according to the agreement governing them on terms that are fair and reasonable and in the interests of the listed issuer's shareholders as a whole;

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- (b) the listed issuer must engage its auditors to report on the continuing connected transaction every year. The auditors must provide a letter to the listed issuer's board of directors confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:
- have not been approved by the listed issuer's board of director;
 - were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;
 - were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
 - have exceeded the annual caps;
- (c) the listed issuer must provide a copy of the auditors' letter to the Exchange at least 10 business days before the bulk printing of its annual report;
- (d) the listed issuer must allow, and ensure that the counterparties to the continuing connected transactions allow, the auditors sufficient access to their records for the purpose of reporting on the transactions; and
- (e) the listed issuer must promptly notify the Exchange and publish an announcement if the independent non-executive directors and/or the auditors cannot confirm the matters as required. The Exchange may require the listed issuer to re-comply with the announcement and shareholders' approval requirements and may impose additional conditions.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the maximum value of the Continuing Connected Transactions by way of the Annual Caps; (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of transactions contemplated under the Renewed Master Procurement Agreement, including the Annual Caps, are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Renewed Master Procurement Agreement, including the Annual Caps, as detailed in the notice of EGM as set out at the end of the Circular.

Yours faithfully,
For and on behalf of
China Everbright Capital Limited
Alvin Kam
Executive Director

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

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.

(ii) Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage of the total number of shares of the Company (%)	Approximate percentage of the relevant class of shares (%)	Long position/short position/shares available for lending
CNPGC	Domestic shares	Beneficial owner	2,728,396 (Note 2)	0.11	0.27	–
		Interest of controlled corporation	1,571,555,953 (Note 1 and 2)	61.19	99.83	–

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage of the total number of shares of the Company (%)	Approximate percentage of the relevant class of shares (%)	Long position/short position/shares available for lending
Sinopharm Investment	Domestic shares	Beneficial owner	1,571,555,953 (Note 1 and 2)	61.19	99.83	–
Fosun Pharma	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 3)	61.19	99.83	–
Fosun High Technology	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 4)	61.19	99.83	–
Fosun Company	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 5)	61.19	99.83	–
Fosun Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 6)	61.19	99.83	–
Fosun International Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 7)	61.19	99.83	–
Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 8)	61.19	99.83	–
Capital Research and Management Company	H shares	Investment manager	42,110,000	1.64	4.24	Long position
BlackRock, Inc	H shares	Interest of controlled corporation (Note 9)	78,332,908	3.05	7.88	Long position
Mirae Asset Global Investments (Hong Kong) Limited	H shares	Investment manager	40,648,000	1.58	4.09	Long position

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage of the total number of shares of the Company (%)	Approximate percentage of the relevant class of shares (%)	Long position/short position/shares available for lending
JPMorgan Chase & Co.	H shares	Beneficial owner,	120,500,319	4.69	12.12	Long position
		Investment manager,	247,381	0.0096	0.02	Short position
		Custodian corporation/ approved lending agent (Note 10)	104,816,842	4.08	10.54	Shares available for lending
Matthews International Capital Management, LLC	H shares	Investment manager	69,613,600	2.71	7.00	Long position
Oppenheimer Developing Markets Fund	H shares	Beneficial owner	88,178,800	3.43	8.87	Long position
Oppenheimer Funds, Inc.	H shares	Investment manager	99,176,000	3.86	9.98	Long position
Bank of America Corporation	H shares	Interest of controlled corporation	64,406,054	2.51	6.48	Long position
		(Note 11)	63,167,810	2.46	6.35	Short position

Notes:

- (1) Such 1,571,555,953 domestic shares are the same batch of shares.
- (2) CNPGC is directly interested in 2,728,396 domestic shares and indirectly interested in 1,571,555,953 domestic shares through Sinopharm Industrial Investment Co. Ltd. (“**Sinopharm Investment**”) (as CNPGC owns 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purpose of the SFO).
- (3) Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (“**Fosun Pharma**”) is the beneficial owner of the 49% equity interest in Sinopharm Investment, and therefore is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purpose of the SFO.
- (4) Shanghai Fosun High Technology (Group) Co., Ltd. (“**Fosun High Technology**”) is the beneficial owner of the 39.83% equity interest in Fosun Pharma, and therefore is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purpose of the SFO.
- (5) Fosun International Limited (“**Fosun Company**”) is the beneficial owner of 100% equity interest in Fosun High Technology, and therefore is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purpose of the SFO.

- (6) Fosun Holdings Limited (“**Fosun Holdings**”) is the beneficial owner of the 79.60% equity interest in Fosun Company, and therefore is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purpose of the SFO.
- (7) Fosun International Holdings Ltd. (“**Fosun International Holdings**”) is the beneficial owner of 100% equity interest in Fosun Holdings, and therefore is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purpose of the SFO.
- (8) Mr. Guo Guangchang is the beneficial owner of the 58% equity interest in Fosun International Holdings and the 0.005% equity interest in Fosun Pharma, and therefore is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purpose of the SFO.
- (9) BlackRock, Inc. is indirectly interested in the long positions of 78,332,908 H shares of the Company through a series of controlled corporations.
- (10) JPMorgan Chase & Co. is indirectly interested in the long positions of 120,500,319 H shares of the Company (including shares available for lending of 104,816,842 H shares) and the short positions of 247,381 H shares of the Company through a series of controlled corporations.
- (11) Bank of America Corporation is interested in long positions of 64,406,054 H shares of the Company and short positions of 49,618,091 H shares of the Company indirectly through a series of controlled corporations.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had interests and short positions in the shares and 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 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 2013, 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 2013, 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			
		Sinopharm Investment	Fosun Pharma	Fosun High Technology	Fosun Company
Wei Yulin	a member of the Party Committee	director and general manager			
Chen Qiyu		vice chairman of the board of directors	executive director and chairman of the board of directors	vice president	vice president
She Lulin	vice chairman of the board of directors, general manager and deputy secretary of Party Committee				
Wang Qunbin			non-executive director	executive director and president	executive director and president
Li Yuhua	external director, head of Audit and Risk Committee and a member of Budget Committee				

Name of Director or Supervisor	CNPGC	Positions held in specific companies			
		Sinopharm Investment	Fosun Pharma	Fosun High Technology	Fosun Company
Zhou Bin	vice general manager	chairman of the board of directors and legal representative			
Deng Jindong	chief accountant	director and chief financial officer			
Li Dongjiu		director	senior vice president		
Liu Hailiang			a senior advisor with the president		
Yao Fang			executive director, vice chairman of the board of directors, president and chief executive officer		
Lian Wanyong	head of the investment management department				

8. EXPERT'S QUALIFICATION AND CONSENT

China Everbright Capital Limited 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 China Everbright Capital Limited who has given its opinions or advices which are contained in this circular:

Name	Qualification
China Everbright Capital Limited	a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

9. EXPERT'S INTERESTS

As at the Latest Practicable Date, China Everbright Capital Limited 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 2013, 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

- (a) The registered office of the Company is located at 6th Floor, No. 221 Fuzhou Road, Shanghai 200002, the PRC.
- (b) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (c) The joint company secretary of the Company are Mr. Ma Wanjun (also serving as the secretary to the Board) 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 Unit B2-A, 20/F., Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong during normal business hours from the date of this circular up to and including Saturday, 27 November 2014:

- (a) the letter from the Independent Board Committee as set out on pages 13 to 14 of this circular;
- (b) the letter from the Independent Financial Advisor as set out on pages 15 to 28 of this circular;
- (c) the written consent of the Independent Financial Advisor referred to under the paragraph headed "Expert's Qualification and Consent" in this Appendix; and
- (d) the renewed Master Procurement Agreement dated 7 November 2014.

NOTICE OF EGM



SINOPHARM GROUP CO. LTD.* **國藥控股股份有限公司**

(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 Meeting Room 1813, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, the People's Republic of China (the “**PRC**”) at 10:00 a.m. on Monday, 29 December for the purpose of considering, and if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“**THAT** the Master Procurement Agreement renewed by the Company and China National Pharmaceutical Group Corporation on 7 November 2014 and the 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 renewed Master Procurement Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

By Order of the Board of
Sinopharm Group Co. Ltd.
Wei Yulin
Chairman

Shanghai, the PRC
13 November 2014

NOTICE OF EGM

Notes:

1. For the purpose of holding the EGM, the register of members of H Shares of the Company will be closed from Saturday, 29 November 2014 to Monday, 29 December 2014 (both days inclusive), during which period no transfer of H Shares of the Company can be registered.

In order to be qualified to attend and vote at the EGM, for holders of H shares of the Company, all transfer documents accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 28 November 2014.

The Shareholders whose names appear on the register of members of the Company on Friday, 28 November 2014 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 of the Company, to the Board Office of the Company in the PRC not less than 24 hours before the time for holding the EGM. 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 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. Shareholders who intend to attend the EGM should complete the reply slip and return it to the Board Office of the Company in the PRC by hand, by post or by fax on or before Monday, 8 December 2014.
7. 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.
8. Contact details of the Board Office of the Company in the PRC are as follows:

Address: Room 1603, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, 200051, the PRC

Telephone No.: (86 21) 2305 2150

Fax No.: (86 21) 2305 2146

- * *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."*